

General Securities Sales Supervisor Qualification Examination

(Test Series 9 and 10)

STUDY OUTLINE

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Study Outline For The General Securities Sales Supervisor Qualification Examination

The General Securities Sales Supervisor Qualification Examination (combination of Series 9 and 10) is intended to test a candidate's knowledge of securities industry rules and certain statutory provisions applicable to the supervision of sales activities at a general securities-oriented branch office. A candidate for this examination must satisfy the prerequisite that normally is registration as a general securities representative. This study outline, the examination question bank and question allocation have been developed by a committee of securities industry professionals with experience in retail securities sales.

A passing score will satisfy the qualification requirements of the American Stock Exchange, the Chicago Board Options Exchange, the Municipal Securities Rulemaking Board, NASD, the New York Stock Exchange, the Pacific Exchange, and the Philadelphia Stock Exchange (jointly referred to as SROs) for a candidate who will supervise the sales activities in corporate, municipal and option securities, investment company products, variable contracts, and direct participation programs. In addition to branch office managers, regional and national sales managers may also be registered solely as Limited Principals-General Securities Sales Supervisor as long as they supervise only sales activities. Senior management and supervisors of underwriting, trading, or overall firm compliance need to qualify under other examination programs. Candidates should refer to the rules of the SROs mentioned earlier to determine the appropriateness of this examination in light of their job descriptions.

The General Securities Sales Supervisor Qualification Examination includes the six general areas listed below, along with the percentage point value assigned to each area.

Exam	Section	Topics	Number of Questions	Percentage Value
Series 10	1	Hiring, Qualifications, and Continuing Education	9	4.5%
	2	Supervision of Accounts and Sales Activities	94	47%
	3	Conduct of Associated Persons	14	7%
	4	Recordkeeping Requirements	8	4%
	5	Municipal Securities Regulation	20	10%
Series 9	6	Options Regulation	55	27.5%
Total			200	100%

This study outline presents topics that the SROs and test development committee consider to be major job functions of a general securities sales supervisor. Although not all-inclusive, the outline describes tasks associated with major components of the job and identifies pertinent SRO rules associated with those tasks, grouping those rules that are substantively similar. Thus, in areas of parallel interest, rules of the options exchanges or those governing municipal securities are cited in the general portion of the examination. Rules and sections of rules that are specific to options and municipal securities will be tested only in the Series 9 and municipal securities portion of the Series 10, respectively. This approach is intended to eliminate redundancy in

testing similar rules, and focus emphasis on products and concepts that are unique to options and municipal securities. Since the outline is used to develop a blueprint for the examination, firms may use the outline to help candidates prepare for the examination. This outline may also be used by course developers in the preparation of training material, and by training directors in the development of lecture notes and seminar programs. Candidates may use the outline to structure their study and as a final review checklist before sitting for the examination. This outline is available on the NASD Web Site at www.nasd.com.

Structure Of The Examination And Grading Procedures

The General Securities Sales Supervisor Qualification Examination contains 200 multiple-choice questions. Series 9 contains 55 questions on Regulation of Options (section 6 of this outline) and candidates are allotted 1 1/2 hours of testing time. Series 10 contains 145 questions from sections 1 through 5 and the testing time allotted is 4 hours. The Series 9 and Series 10 may be taken in any order at any time within the 120-day enrollment period. They are closed-book tests administered on-line at NASD-approved test centers. Candidates may NOT use any reference material during their testing sessions. The test center administrator will provide both scratch paper and a basic calculator for each candidate. Only calculators provided by the test center administrator will be allowed. The scratch paper and calculator must be returned to the administrator at the end of the testing session.

A candidate must receive at least a 70% score on the Series 9 (the Options Group) and at least a 70% score on the Series 10 (the General Group) to receive a passing grade. At the completion of the test, candidates will receive an informational breakdown of their performance on each section of the test as well as their overall score. This score will also be posted on the candidate's CRD record and once all requirements have been satisfied for this registration, the candidate will be approved as a General Securities Sales Supervisor.

Examination questions will be updated to reflect current interpretations of the rules and regulations. Questions on new rules are added and questions on rescinded rules are deleted regularly.

Reference Materials

**American Stock Exchange, Inc.
Constitution and Rules**

American Stock Exchange
86 Trinity Place
New York, NY 10006
www.amex.com

NASD Manual

CCH Inc.
4025 W. Peterson Ave.
Chicago, IL 60646
www.nasd.com

**Chicago Board Options
Exchange**

Constitution and Rules
Chicago Board Options Exchange
LaSalle at Van Buren
Chicago, IL 60605
www.cboe.com

**New York Stock Exchange, Inc.
Constitution and Rules**

New York Stock Exchange
11 Wall Street
New York, NY 10005
www.nyse.com

**Code of Federal Regulation
Title 17—Commodity and
Securities Exchanges**

Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402

**Pacific Exchange, Incorporated
Constitution and Rules**

Pacific Exchange, Incorporated
115 Sansome
San Francisco, CA 94104
www.pacificex.com

Dictionary of Finance and Investment Terms

Barron's Financial Guides
250 Wireless Boulevard
Hauppauge, NY 11788
www.barronseduc.com

**Philadelphia Stock Exchange,
Inc.**

Manual
Philadelphia Stock Exchange, Inc.
1900 Market Street
Philadelphia, PA 19103
www.phlx.com

**Federal Securities Law
Reporter, Volumes 2 and 3**

Commerce Clearing House, Inc.
4025 W. Peterson Avenue
Chicago, IL 60646

Securities Act Handbook

Aspen Publishers
111 Eighth Avenue
New York, NY 10011
www.aspenpublishers.com

**Municipal Securities Rulemaking
Board Rule Book**

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314
Attn: Publications
www.msrb.org

**Securities Credit Transactions
Regulations T, U, and X**

Board of Governors of the
Federal Reserve System
Constitution Avenue at
20th Street, NW
Washington, DC 20551

Securities Law Handbook, 2005 ed.

H.S. Bloomenthal
Clark Boardman Callaghan
610 Opperman Drive
Eagan, IL 55123
www.west.thomson.com

SIPC

805 15th Street, NW
Suite 800
Washington, DC 20005-2215
www.sipc.org

Securities Regulation

Joel Seligman, The Late Louis Loss
Prentice-Hall, Inc.
Englewood Cliffs, NY 07632
www.aspenpublishers.com

1.0 Hiring, Qualifications, and Continuing Education

1.1 Qualification and Registration Requirements

- **Ensure that RRs' Form U4s are current**
- **Ensure that state registration requirements for agents and investment advisers are met**
- **Initiate pre-hire investigations**
- **Review new employees' previous registration and work history**
- **Supervise RRs' compliance with Continuing Education requirements**

1.1.1 Qualification and Registration

1.1.1.1 Investigation and records

- Amex Rules
 - Rule 341 Commentary .07 Qualifications
- NASD By-Laws and Rules
 - Article III, Sec. 3 Ineligibility of certain persons for membership or association
 - Rule 3010 (e)—Qualifications investigated
 - Rule 3010 (f)—Applicant's responsibility
- NYSE Rules
 - Rule 345.11—Investigation and records
- Securities Exchange Act of 1934
 - Rule 17f-2—Fingerprinting of securities industry personnel

1.1.1.2 Qualification, registration and approval

- Amex Rules
 - Rule 341(a) and (b) --- Approval of Registered Employees and Officers
 - Rule 920—Registration and examination of options personnel
- CBOE Rules
 - Rule 9.2—Registration of options principals
 - Rule 9.8—Supervision of accounts
- MSRB Rules
 - Rule G-2—Standards of professional qualification
 - Rule G-3(a)(i)—Municipal securities representative - Definition
 - Rule G-3(a)(ii)—Qualification requirements
 - Rule G-3(b)(i)—Municipal securities principal - Definition
 - Rule G-3(b)(iv)(A)—Municipal fund securities limited principal
 - Rule G-3(c)(i)—Municipal securities sales principal -Definition
 - Rule G-3(c)(ii)—Qualification requirements
 - Rule G-3(f)—Retaking of examinations
- NASD By-Laws and Rules
 - Article V, Sec. 1—Qualification requirements
 - Rule 1000—Membership, registration and qualification requirements
- NYSE Rules
 - Rule 345—Employees—registration, approval, records
 - Rule 346(a)—Limitations—employment and association with members and member organizations
 - Rule 351(a)(4)—Reporting requirements

PCX Rules

- Rule 9.26—Registration of options principals
- Rule 9.27(a)—Registration of representatives
- PHLX Rules
 - Rule 604—Registration and termination of registered persons
 - Rule 1024(a)(i)—Registration of options principals
 - Rule 1024(a)(iii)—Foreign currency options – qualified customer personnel

1.1.1.3 Apprenticeship requirements

- MSRB Rules
 - Rule G-3(a)(iii)—Apprenticeship

1.1.2 Special Registration Review for Disciplinary History

1.1.2.1 Statutory disqualification

- Amex Rules
 - Rule 341A(a)(2) —Continuing Education for Registered Persons-Disciplinary Actions
 - Rule 341B(2) – Independent Contractors
 - Rule 342(e) – Association of Members, Member Organizations, and Persons Associated with Member Organizations
- CBOE Rules
 - Rule 3.18—Members and associated persons who are or become subject to a statutory disqualification
- NASD By-Laws and Rules
 - Article III Sec.4—Definition of disqualification
- NYSE Rules
 - Rule 345—Employees – registration, approval, records
 - Rule 345A(3) – Continuing Education for Registered Persons
 - Rule 346(f)—Statutory disqualification
- MSRB Rules
 - Rule G-4—Statutory disqualification
- Securities Exchange Act of 1934
 - Sec. 3(a)(39)—Definition of “statutory disqualification”

1.1.3 Continuing Education for Registered Persons

1.1.3.1 Regulatory element

- Amex Rules
 - Rule 341A(a)—Regulatory element
- CBOE Rules
 - Rule 9.3A(a) & (b)—Regulatory element
- MSRB Rules
 - Rule G-3(h)(i)—Regulatory element
- NASD Rules
 - Rule 1120(a)—Regulatory element
- NYSE Rules
 - Rule 345A(a)—Regulatory element
- PCX Rules
 - Rule 9.27(c)—Regulatory element
- PHLX Rules
 - Rule 640(a)—Regulatory element

1.1.3.2 Firm element

- Amex Rules

Rule 341A(b)—Firm element
CBOE Rules
Rule 9.3A(c)—Firm element
MSRB Rules
Rule G-3(h)(ii)—Firm element
NASD Rules
Rule 1120(b)—Firm element
NYSE Rules
Rule 345A(b)—Firm element
PHLX Rules
Rule 640 (b)—Firm element

2.0

Supervision of Accounts and Sales Activities

2.1 Solicitation

2.1.1 Communications with the Public

- **Review and approve correspondence to customers, including electronic communication**
- **Evidence review of correspondence from customers, including electronic communication**
- **Review and approve sales literature and other public communications**
- **Review and approve RR-generated sales material**
- **Review and approve public seminars and presentations**
- **Monitor the use of ‘internal use only’ sales material**
- **Monitor telemarketing procedures, e.g., maintain ‘do not call’ list**
- **Maintain a log of public seminars and presentations given by RRs**

2.1.1.1 Communications with the public

Amex Rules

Rule 481—Communications with the Public

Rule 1106—Prior Approval of Certain Communications to Customers

MSRB Rules

Rule G-21(a-c) and (e)—Advertising

Rule G-27(d)—Review of correspondence

NASD Rules

Rule 2210—Communications with the public

Rule 2211—Institutional Sales Material and Correspondence

Rule 2220—Options communications with the public

Rule 2711—Research analysts and research reports

NYSE Rules

Rule 342.16—Supervision of registered representatives

Rule 342.17—Review of communications with the public

Rule 472—Communications with the public

PCX Rules

Rule 9.21 through 9.25—Advertising and sales literature

PHLX Rules

Rule 605—Advertisements, market letters, research reports and sales literature

Securities Act of 1933

Section 5—Prohibitions relating to interstate commerce and the mails

Rule 135a—Generic advertising

Rules 138 and 139—Definition to “offer for sale” and “offer to sell” in

Sections 2(10) and 5(C) in relation to certain publications

Rule 156—Investment company sales literature

2.1.1.2 Telemarketing requirements

Amex Rules

Rule 428—Telephone Solicitation - Recordkeeping

Rule 429—Telemarketing

CBOE Rules

Rule 9.24—Telephone solicitation
MSRB Rules
Rule G-8(a)(xix)—Telemarketing requirements
Rule G-39—Telemarketing
NASD Rules
Rule 2212—Telemarketing
NYSE Rules
Rule 440A—Telephone solicitation
PCX Rules
Rule 9.20—Telemarketing
PHLX Rules
Rule 762—Telemarketing

2.2 Opening of Accounts

2.2.1 Account Documentation

- **Review customer information and documentation obtained to approve new accounts**
- **Review and approve the opening of all new accounts for suitability and compliance with regulatory and firm requirements**
- **Ensure third party trading authorizations are current**
- **Supervise the documentation and transactions in different types of accounts, including but not limited to: fiduciary accounts, Uniform Gifts/Transfers to Minors Act accounts, Advisory and Wrap accounts, Retirement Plans, accounts with check-writing capability, and discretionary accounts**
- **Ensure proper handling of accounts of incompetents and decedents**
- **Review activity in discretionary accounts for proper documentation, authorizations and suitability**

2.2.1.1 Diligence as to accounts

Amex Rules
Rule 411—Duty to Know and Approve Customers
CBOE Rules
Rule 9.7(b) —Diligence in opening account
NYSE Rules
Rule 405(1)—Diligence as to accounts
PCX Rules
Rule 9.2(b)—Diligence as to accounts

2.2.1.2 Opening of accounts

Amex Rules
Rule 921(c)—Diligence in opening account
CBOE Rules
Rule 9.7—Opening of accounts
MSRB Rules
Rule G-8(a)(xi)—Customer account information
Rule G-19(a) and (b)—Account information
Rule G-27(c)(vii)(A)—Opening of accounts

NASD Rules

Rule 3110(c)—Customer account information
IM-3110—Customer account information
NYSE Rules
Rule 406—Designation of accounts
PCX Rules
Rule 9.18(b) —Opening of accounts
PHLX Rules
Rule 1024(b)—Opening accounts
Securities Exchange Act of 1934
Regulation S-P—Privacy of consumer financial information

2.2.1.3 Approval of accounts

Amex Rules
Rule 921(a) and (b) —Opening of Accounts
CBOE Rules
Rule 9.7(a)—Opening of accounts - approval required
NYSE Rules
Rule 405(3)—Approval of accounts

2.2.1.4 Information obtained in fiduciary capacity

MSRB Rules
Rule G-24—Use of ownership information obtained in fiduciary or agency capacity
NASD Rules
Rule 3120—Use of information obtained in fiduciary capacity

2.2.1.5 Discretionary accounts - required documentation and approval

Amex Rules
Rule 421—Discretion as to customers' Accounts
CBOE Rules
Rule 9.10 —Discretionary accounts
MSRB Rules
Rule G-19(d)—Discretionary accounts
Rule G-22(b)—Control relationships – discretionary accounts
NASD Rules
Rule 2510—Discretionary accounts
NYSE Rules
Rule 408—Discretionary power in customers' accounts
PCX Rules
Rule 9.18(e) —Discretionary accounts
Securities Exchange Act of 1934
Rule 15c1-7—Discretionary accounts

2.3 Supervision of Account Activities

2.3.1 Suitability

- **Assist RRs in helping customers formulate investment objectives and to set financial goals**
- **Review trading and suitability of trade activity, *e.g.*, use of margin, day trading or concentrated positions and/or excessive transactions**
- **Review for initial and ongoing suitability of various investment portfolios and objectives**

- **Review managed accounts to ensure that the investment styles of the advisers and managers are consistent with the objectives of the customer**
- **Ensure that RRs have necessary product knowledge**
- **Ensure suitability of recommending options strategies**
- **Ensure that RRs understand suitability requirements**
- **Monitor customer accounts for mutual fund switching and variable annuity 1035 exchanges**

2.3.1.1 Special products and accounts, *e.g.*, direct participation programs; index shares; exchange traded funds (ETFs); investment company products; depository receipts; IRAs: Traditional, Roth, Coverdell; transfers; corporate pension plans; corporate deferred payment profit sharing plans; variable annuities and tax deferred annuity plans; 401(k) plans; 403(b) plans; employee stock ownership plans (ESOP); eligible worker-owned cooperative (EWOC); and nonqualified retirement plans

Amex Rules

- Rule 1000—Portfolio Depository Receipts
- Rule 1000A—Index Fund Shares
- Rule 1200— Trust Issued Receipts Rule, Rules of general applicability
- Rule 1200A—Commodity-Based Trust Shares
- Listing Standards—Policies—Requirements, Section 107 B. Equity Linked Term Notes
- Listing Standards—Policies—Requirements, Section 107 C. Index-Linked Exchangeable Notes
- Listing Standards—Policies—Requirements, Section 107 E. Trust Certificate Securities
- Listing Standards—Policies—Requirements, Section 118 A. Investment Trusts Based on Securities of Individual Issuers
- Listing Standards—Policies—Requirements, Section 118 B. Investment Trusts Based on Stock Indexes or Debt Instruments

CBOE Rules

- Chapter XXX—Trading in stocks, warrants and other securities

NASD Rules

- Rule 2810—Direct participation programs
- Rule 2820(b)—Variable contracts of an insurance company
- Rule 2830(b)—Investment company securities

2.3.1.2 Suitability of recommendations

Amex Rules

- Rule 411—Commentary .02—Duty to know and approve customers (index warrants)
- Rule 924(c)— Prohibited Transactions
- Rule 1102—Suitability

CBOE Rules

- Rule 9.9—Suitability of recommendations

MSRB Rules

- Rule G-19 (a)-(c)—Suitability of recommendations and transactions discretionary accounts

NASD Rules

- Rule 2310—Recommendations to customers

NYSE Rules

- Rule 405(1)—Diligence as to accounts

PCX Rules
Rule 9.18(c) —Suitability
PHLX Rules
Rule 1026—Suitability

2.3.2 Prohibited Activities

- **Review for market manipulation, insider trading, marking the close, creating an appearance of volume, e.g., pump and dump**
- **Monitor trading activities for front running of customer orders, research and block trades, fictitious trades, e.g., painting the tape**

2.3.2.1 Anti-manipulation rules

Amex Rules
Rule 4—Manipulation
Constitution, Article V, Section 4(c) and (d) —Fictitious transactions and market demoralization, respectively
Investment Advisers Act of 1940
Rule 205—Investment advisory contracts
NASD Rules
Rule 2120—Use of fraudulent devices
IM-3310—Manipulative and deceptive quotations
NYSE Rules
Rule 77—Prohibited dealings and activities
Rule 435(3)-(4)—Miscellaneous prohibitions
IM 99-51—Market-on-close/limit-on-close procedure
IM 98-20—Market-on-close and limit-on-close policy
PHLX Rules
Rule 782—Manipulative operations
Securities Exchange Act of 1934
Section 9(a)(1) – (a)(6)—Prohibition against manipulation of security prices
Rule 10b-1—Prohibition of use of manipulative or deceptive devices or contrivances with respect to certain securities exempted from registration
Rule 10b-3—Employment of manipulative and deceptive devices by brokers or dealers
Rule 14e-3—Transactions in securities on the basis of material, nonpublic information in the context of tender offers
Rule 14e-4—Prohibited transactions in connection with partial tender offers
Rule 15c1-2—Fraud and misrepresentation
Rule 15c1-3—Misrepresentation by brokers, dealers and municipal securities dealers as to registration

2.3.2.2 Insider trading

CBOE Rules
Rule 4.18—Prevention of misuse of material, nonpublic information
Insider Trading and Securities Fraud Enforcement Act of 1988
Section 3—Civil penalties of controlling persons for illegal insider trading by controlled persons
NYSE Rules
Rule 342.21—Trade review and investigation
Rule 351(e)— Reporting Requirements
PCX Rules
Rule 11.3—Prevention of misuse of material, nonpublic information

PHLX Rules

Rule 761—Supervisory procedures relating to Insider Trading and Securities Fraud Enforcement Act of 1988

Securities Exchange Act of 1934

Section 15(f)—Registration and regulation of brokers and dealers – written policies and procedures relating to misuse of material, non-public information

Rule 10b-5—Employment of manipulative or deceptive devices

Rule 10b5-1—Trading on the basis of material nonpublic information in insider trading cases

Rule 10b5-2—Duties of trust or confidence in misappropriation insider trading cases

2.3.2.3 Review account activity for trade practice violations

Amex Rules

Rule 3(d) —Confidential information

Rule 24—Block Transactions

Rule 111, Commentary, .03—Restrictions on Registered Traders (front-running)

Rule 150—Purchases and sales while holding unexpected order

Rule 950(d), Commentary .04—Rules of General Applicability (knowledge of all material terms and conditions)

NASD Rule Interpretations

IM-2110-2—Trading ahead of customer limit order

IM-2110-3—Front running policy

IM-2110-4—Trading ahead of research reports

IM-2110-5—Anti-intimidation/coordination

NYSE Rules

Rule 92—Limitations on members' trading because of customers' orders

2.3.3 Sales and Business Practices

- **Ensure compliance with firm's supervisory and compliance procedures for sales office**
- **Monitor trading activities for possible selling away**
- **Review customer accounts to determine that RRs are properly handling customer securities or funds**
- **Prevent improper use of customer assets**
- **Monitor and document third party transfer of securities or funds**
- **Monitor entry and allocation of block orders**
- **Ensure correct entry and handling of orders**
- **Review employee related accounts for any irregularities**
- **Review customer accounts to ensure that investments are consistent with stated objectives and risk tolerance**
- **Ensure that proper disclosures are made regarding nature of securities sold to a customer**
- **Conduct same day review of trading for unauthorized discretion, excessive transactions and suitability of transactions**
- **Review mutual fund transactions to ensure proper application of breakpoint sales discounts**

2.3.3.1 Business conduct

Amex Rules

- Rule 3(a) —General prohibitions and duty to report
- Rule 3(c) —Rumors
- Rule 16—Business conduct
- Rule 345(a) and (b)— Determinations involving employees and prospective employees

CBOE Rules

- Rule 4.1—Just and equitable principles of trade

NASD Rules

- Rule 2110—Standards of commercial honor and principles of trade
- Rule 2420—Dealing with Non-Members

NYSE Rules

- Rule 401—Business conduct
- Rule 435(1)—Miscellaneous prohibitions

PCX Rules

- Rule 6.1 to 6.29—Options Trading – Rules principally applicable to trading of Option Contracts
- Rule 11.2(b) —Just and equitable principles of trade

PHLX Rules

- Rule 707—Just and equitable principles of trade

2.3.3.2 Fair dealings with customers

MSRB Rules

- Rule G-13—Quotations relating to municipal securities
- Rule G-17—Conduct of municipal securities activities
- Rule G-30—Prices and commissions

NASD Rules

- Rule IM-2230—“Third Market” confirmations
- Rule IM-2310-2—Fair dealing with customers
- Rule 2430—Charges for services performed
- Rule 2440—Fair prices and commissions
- Rule IM-2440—Mark-up policy
- Rule IM 3320—Firmness of quotations
- Rule 3330—Payment designed to influence market prices, other than paid advertising

NYSE Rules

- Rule 78—Sell and buy orders coupled at same price

2.3.3.3 General supervision of customer accounts

Amex Rules

- Rule 411— Supervision of accounts
- Rule 1104— Supervision of Account

CBOE Rules

- Rule 9.8—Supervision of accounts
- Rule 9.10(a) —Discretionary accounts-authorization and approval required
- Rule 9.10(c)— Discretionary accounts-excessive transactions prohibited

MSRB Rules

- Rule G-19(e) —Discretionary accounts-churning

NASD Rules

- Rule 2330—Customers’ securities or funds
- Rule 2510(a) —Excessive transactions
- Rule 2820(c)-(g)—Variable contracts of an insurance company
- Rule 2830(c)-(n)—Investment company securities
- IM2830-1—Breakpoint sales
- Rule 3010—Supervision

NYSE Rules

- Rule 405(2)—Supervision of accounts
- Rule 405A—Non –managed fee based account programs
- Rule 408(c) —Discretionary power in customers’ accounts

PCX Rules

- Rule 9.2(a) —Account supervision

PHLX Rules

- Rule 1027(c)—Discretionary accounts-prohibited transactions

2.3.3.4 Anti-money laundering compliance program

Amex Rules

- Rule 432—Anti-money laundering compliance program

CBOE Rules

- Rule 4.20—Anti-money laundering compliance program

NASD Rules

- Rule 3011—Anti-money laundering compliance program

NYSE Rules

- Rule 445—Anti-money laundering compliance program

PCX Rules

- Rule 11.19—Anti-money laundering compliance program

PHLX Rules

- Rule 757—Anti–money laundering compliance program

2.3.3.5 Statement of account to customers

Amex Rules

- Rule 419—Statements of accounts
- Rule 420— Mailing Statements, Confirmations and Communications to Customers
- Rule 930—Statement of accounts

CBOE Rules

- Rule 9.12—Statements of accounts to customers

NASD Rules

- Rule 2340—Customer account statements
- Rule 2860(b)(15)—Statements of account

NYSE Rules

- Rule 409—Statement of accounts to customers

PCX Rules

- Rule 9.18(j)—Statement of accounts to customers

PHLX Rules

- Rule 1032—Statements of accounts

Securities Exchange Act of 1934

- Rule 17a-5(c) —Customer statements

2.3.3.6 Order tickets

Amex Rules

- Rule 153—Record of Orders
- Rule 153A—Automated submission of trading data
- Rule 422—Excessive transactions for discretionary account prohibited
- Rule 730—Recording and use of give-up name
- Rule 924(d) —Record of transactions
- Rule 925—Confirmations

NASD Rules

- Rule 2860(b)(12)—Confirmations
- Rule 3110(b)—Marking order tickets

NYSE Rules

Rule 123(e)—Records of orders
Rule 410A(a)-(d)—Records of orders
PCX Rules
Rule 9.18(f) —Confirmations
Securities Exchange Act of 1934
Rule 10b-10—Confirmation of transactions

2.3.3.7 Supervision

Amex Rules
Rule 320—Offices -- approval, supervision and control
CBOE Rules
Rule 9.8—Supervision of accounts
NASD Rules
Rule 3010(d)—Review of transactions and correspondence
NYSE Rules
Rule 342(d)(3)—Offices approval, supervision and control
PCX Rules
Rule 9.18(d)—Supervision of accounts

2.3.4 New Issues (Public and Private Offerings)

- **Understand the structure and distribution of new issues**
- **Ensure that RRs are providing customers with current information, *e.g.*, prospectus**
- **Understand the responsibilities and risks associated with distribution of new issues**
- **Supervise sale of securities during initial distribution**
- **Monitor activity related to purchases and sales of initial public offerings of equity securities**
- **Understand the Blue Sky considerations during the course of a distribution of securities**

2.3.4.1 Registration of securities

Securities Act of 1933
Section 6—Registration of securities
Regulation C—Registration
Rule 415—Delayed or continuous offering and sale of securities
Regulation A—Conditional small issue exemption
Regulation D—Offer and sale of securities without registration

2.3.4.2 Offer and sale of new issue securities – indications of interest

NASD Rules
Rule 2790—Restrictions on the purchase and sale of initial equity public offerings

2.3.4.3 Offering documents

Securities Act of 1933
Rule 134—Communications not deemed a prospectus
Rule 427—Contents of prospectus used after nine months
Rule 430—Prospectus for use prior to effective date
Section 23—Unlawful representation

Securities Exchange Act of 1934

2.3.5 Distribution of Restricted Securities

- **Ensure RRs provide customers full disclosure regarding costs and fees associated with investment transactions**
- **Understand the responsibilities and risks associated with transactions in unregistered securities**
- **Ascertain initial and ongoing suitability**
- **Supervise transactions in restricted securities**
- **Ensure proper documentation is obtained for settlement**

2.3.5.1 Restrictions on sales and resale of certain securities

NASD Rules

Rule 2860(b)(14)—Restricted stock

Securities Act of 1933

Rule 144—Persons deemed not to be engaged in a distribution and therefore not underwriters

Rule 144A—Private resale of securities to institutions

Rule 145—Reclassification of securities, mergers, consolidations and acquisitions of assets

Regulation S—Rules governing offers and sales made outside the United States without registration under the Securities Act of 1933

Securities Exchange Act of 1934

Rule 10b-18—Purchase of certain equity security by the issuer

2.4 Trading and Settlement Practices

2.4.1 Trading

- **Train RRs to understand the securities markets and industry regulations**
- **Ensure that RRs understand the various markets, *e.g.*, auction, Electronic Communication Network (ECN), negotiated, over-the-counter etc.**
- **Review erroneous transactions for proper resolution**
- **Review and approve cancellations and re-bills**
- **Review and approve daily trading activity**

2.4.1.1 Overview of U.S. securities markets

2.4.1.1.1 Auction market

2.4.1.1.2 NASDAQ Market Center—Execution Services (SuperMontage)

2.4.1.1.3 Other facilities *e.g.*, Automated Display Facility (ADF); Alternative Trading System (ATS); ECNs; Bulletin Board and pink sheets; Unlisted Trading privilege (UTP)

2.4.1.2 Trading halts

Amex Rules

Rule 117—Trading halts due to extraordinary market volatility

Rule 119—Indications, Opening and Reopenings

Rule 1109---Trading Halts
CBOE Rules
Rule 6.3—Trading halts
Rule 6.3B—Trading halts due to extraordinary market volatility
NASD Rules
Rule 3340—Prohibition on transactions, publications of quotations, or
Publication of indications of interest during trading halts
Rule 4120—Trading halts
NYSE Rules
Rule 80B—Trading halts due to extraordinary market volatility
PCX Rules
Rule 6.65—Trading halts in the interests of a fair and orderly market
PHLX Rules
Rule 133—Trading halts due to extraordinary market volatility
Rule 136—Trading halts in certain exchange traded funds

2.4.1.3 Transaction review

Amex Rules
Rule 129—Price Binding Despite Erroneous Report
Rule 152—Taking or supplying stock to fill customer's order
Rule 731—Resolution of uncompleted transactions
Rule 970—Comparison of option transactions excluded from clearance
CBOE Rules
Rule 6.52—Price binding despite erroneous report
NASD Rules
Rule 11890—Clearly erroneous transactions
NYSE Rules
Rule 134(a)—Differences and omissions: cleared transactions (QTs)
Rule 411—Erroneous reports
PCX Rules
Rule 6.70—Price binding despite erroneous report

2.4.2 Extensions of Credit in the Securities Industry

- **Review margin accounts for proper handling by the RRs**
- **Comply with margin requirements for day traders**
- **General understanding of Regulation T**
- **Review customer accounts/transactions to ensure compliance with short sale and buy-in rules**

2.4.2.1 Margin requirements (General concept only – no calculations)

2.4.2.1.1 Regulation T

Initial margin requirement
Depositing or liquidating securities to meet a margin call
Special miscellaneous accounts
Extensions of time – cash/margin
Miscellaneous provisions
Arranging for loans by others
Completion of sell orders on behalf of customers

2.4.2.1.2 Maintenance margin requirements

Amex Rules
Rule 460—Adequate margin
Rule 461—Establishment of Minimum Margins
CBOE Rules
Rule 12.3—Margin requirements
NASD Rules
Rule 2520(a)-(f)—Margin rule
Rule 2520(f)(8)(B)—Day trading
Rule 11740—Marking to the market
NYSE Rules
Rule 431—Margin requirement
PCX Rules
Rule 4.16—Margin requirements
Rule 5.25—Margin requirement
PHLX Rules
Rule 722—Margin accounts

2.4.2.1.3 Short sales and mandatory buy-ins

Lenders privileges

Short against the box

Amex Rules
Rule 7—Short Sales
Rule 784—Mandatory Closing of Fails
NASD Rules
Rule 11810—Buying-in
Rule 3350—Short sale rule
NYSE Rules
Rule 440B—Short sales
Rule 440C— Deliveries of Short Sales
PXC Rules
Rule 7.16—Short sales
PHLX Rules
Rule 455—Short sales
Securities Exchange Act of 1934
Regulation SHO—Short sales
Rule 15c3-3(h)—Customer Protection – reserves and custody of securities

2.4.2.1.4 Other margin requirements

Securities Exchange Act of 1934
Rule 11d1-1—Exemption of certain securities from section 11(d)(1)
Rule 15c2-1—Hypothecation of customer securities
Rule 15c3-2—Customer’s free credit balances

2.4.3 Settlement Practices

- **Ensure RRs understand and are able to explain to customers the settlement procedures, e.g., prompt receipt and delivery, affirmative determination, denominations of delivery, assignments, ex-dividend transactions, etc.**
- **Ensure proper handling of customer requests to transfer accounts**

2.4.3.1 Settlement and delivery requirements

Amex Rules

- Rule 748—Denominations on delivery: Stocks
- Rule 751—Delivery on cash contracts
- Rule 753—Payment of delivery
- Rule 765—Assignment by member organizations
- Rule 774—Signature Guarantee
- Rule 775—Legal Assignments
- Rule 776—Book-Entry settlement of transactions
- Rule 831—Buyer entitled to dividend
- Rule 882—Due-bills on failures to deliver

NASD Rules

- Rule 3370—Purchases
- Rule 11550—Assignments and powers of substitutions; delivery of registered securities
- Rule 11574—Certificate in name of deceased person, trustee, etc.

NYSE Rules

- Rule 198—Signatures
- Rule 199—Corporate assignments
- Rule 200—Assignments - by member organizations
- Rule 201—Assignments - by persons since deceased, trustees, guardians, etc.
- Rule 207—Two or more names
- National Medallion Signature Guarantee Program

PCX Rules

- Rule 3.7—Assignment

PHLX Rules

- Rule 1044—Delivery and payment

2.4.3.2 Account transfer requirements

CBOE Rules

- Rule 9.20—Transfer of accounts

MSRB Rules

- Rule G-26—Customer account transfers

NASD Rules

- Rule 11870—Customer account transfer contracts
- IM-2110-7—Interfering with the transfer of customer accounts in the context of employment disputes

NYSE Rules

- Rule 412—Customer account transfer contracts

3.0

Conduct of Associated Persons

3.1 General Supervisory Responsibilities

- **Ensure compliance with firm written supervisory procedures and systems**
- **Monitor RRs' activities regarding gifts and gratuities**
- **Review possible outside business activities of RRs – obtain necessary approvals**
- **Review for possible private securities transactions by RRs (selling away)**
- **Review RRs' accounts and employee-related accounts held at other firms – ensure necessary approvals are obtained, review confirmations and statements**

3.1.1 Written Supervisory Procedures and Systems

Amex Rules

Rule 320—Commentary .06-Supervision of Registered Representatives

CBOE Rules

Rule 9.8—Supervision of accounts

MSRB Rules

Rule G-27—Supervision

NASD Rules

Rule 2350—Broker/dealer conduct on the premise of financial institutions

Rule 2360—Approval procedures for day-trading accounts

Rule 2361—Day-trading risk disclosure statement

Rule 3010—Supervision - related to associated persons, employees and others' employees

NYSE Rules

Rule 342(a)—Offices – approval, supervision and control

Rule 343—Offices – sole tenancy, hours, display of membership certificates

PCX Rules

Rule 11.18(c)— Written procedures

PHLX Rules

Rule 748—Supervision

3.1.2 Outside Business Activities

CBOE Rules

Rule 9.4—Other affiliations of registered associated persons

NASD Rules

Rule 3030—Outside business activities of an associated person

Rule 3040—Private securities transactions of an associated person

NYSE Rules

Rule 346(b)—Limitations – employment and association with members and member organizations

PCX Rules

Rule 2.23(d) and (e) —Limitations-employment and association

3.1.3 Gifts and Gratuities

Amex Rules

Rule 347—Gratuities to Employees of Financial Concerns

Rule 417(c) —Transactions Involving Exchange Employees

CBOE Rules

Rule 4.4—Gratuities

- MSRB Rules
 - Rule G-20—Gifts and gratuities
- NASD Rules
 - Rule 3060—Influencing or rewarding employees of others
- NYSE Rules
 - Rule 350—Compensation or gratuities to employees of others
- PCX Rules
 - Rule 2.23—Registration
 - Rule 11.11(a)—Disclosure of financial arrangements

3.1.4 Non-cash Compensation

- NASD Rules
 - Rule 2710(e)—Valuation of non-cash compensation
 - Rule 2820(g)—Member compensation
 - Rule 2830(l)—Member compensation

3.1.5 Sharing in Customer Accounts

- Amex Rules
 - Rule 135(b)—Cancellation of, and revisions in, transactions where both the Buying and Selling Members Agree to the Cancellation or Revision
 - Rule 135A(d)—Cancellation of, and revisions in, transactions where both the Buying and Selling Members Do Not Agree to the Cancellation or Revision
 - Rule 390—Assumption of loss prohibited
- CBOE Rules
 - Rule 9.18—Guarantees and profit sharing
 - Rule 9.19—Assuming losses
 - Rule 9.25—Borrowing from or lending to customers
- MSRB Rules
 - Rule G-25(b)—Improper use of assets - Guaranties
 - Rule G-25(c)—Improper use of assets - Sharing account
- NASD Rules
 - Rule 2330(e)—Prohibition against guarantees
 - Rule 2330 (f)—Sharing in accounts; extent permissible
 - Rule 2370—Borrowing from or lending to customers
- NYSE Rules
 - Rule 352—Guarantees and sharing in accounts
 - Rule 353 – Rebates and Compensation
- PCX Rules
 - Rule 9.1—Sharing profits—losses

3.1.6 Transactions with Other Professionals

- Amex Rules
 - Rule 415—Member’s transactions with another member organization
- CBOE Rules
 - Rule 9.17—Transactions of certain customers
- MSRB Rules
 - Rule G-28—Transactions with employees and partners of other municipal securities professionals
- NASD Rules
 - Rule 3050—Transactions for or by associated persons
- NYSE Rules
 - Rule 407—Transactions of employees of members, member organizations and the Exchange
- PHLX Rules
 - Rule 751—Accounts of employees of members of participating organizations

3.2 Procedural Rules

- **Ensure that RRs understand the consequences of failure to comply with industry regulations**
- **Ensure compliance with rules pertaining to suspended associated persons**

3.2.1 Investigations and Resulting Sanctions

Amex Rules

Article V of Amex Constitution: Discipline of Members

Sec.1—Procedures

Sec.2—Delegation of disciplinary power

Sec.4—Suspension or expulsion

Sec.6—Retention of jurisdiction over former members

Rule 345(c), (d), (e) and (f)—Determinations involving employees and prospective employees

Rule 590—Minor Rule Violation Fine Systems

Exchange disciplinary proceedings: Rules 1-12 Amex Sanction Guidelines

CBOE Rules

Rule 17.1—Disciplinary jurisdiction

Rule 17.2—Complaint and investigation

Rule 17.3—Expedited proceeding

Rule 17.4—Charges

Rule 17.7—Summary proceedings

Rule 17.8—Offers of settlement

Rule 17.11—Judgment and sanction

MSRB Rules

Rule G-5—Disciplinary actions by appropriate regulatory agencies; remedial notices by registered securities associations

NASD Rules

Article XII Section (2)—Disciplinary proceedings

Rule 8000—Investigations and sanctions

Rule 8210—Provisions of information and testimony and inspection and copying of books

Rule 8310—Sanction for violation of the rules

Rule 8320—Payment of fines, other monetary sanctions, or costs; summary action for failure to pay

NYSE Rules

Rule 475—Prohibition or limitation with respect to access to services

Rule 476—Disciplinary proceedings involving charges against members

Rule 476A—Imposition of fines for minor violations of rules

Rule 477—Retention of jurisdiction-failure to cooperate

PCX Rules

Rule 10—Disciplinary proceedings and appeals

PHLX Rules

Rule 960—Disciplinary Rules

3.3 Dispute Resolution Procedures

- **Disclose to associated persons the effect of signing a pre-dispute arbitration clause**
- **Understand matters subject to arbitration**
- **Understanding the difference between arbitration and mediation processes**

3.3.1 Arbitration and Mediation Procedures

Amex Rules

Rule 600—Arbitration

CBOE Rules

Chapter XVIII—Arbitration

NASD Rules

Rule 3080—Disclosure to associated persons when signing Form U-4

Rule 10100—Administrative provisions

Rule 10200—Industry and clearing controversies

Rule 10300—Uniform code of arbitration

Rule 10400—Mediation rules

NYSE Rules

Rule 347(a)—Controversies as to employment or termination of employment

Rule 600—Arbitration

Rule 636—Requirements when using pre-dispute arbitration agreements
with customers

Rule 638—Mediation

PCX Rules

Rule 12—Arbitration

PHLX Rules

Rule 950—Arbitration

4.0 Recordkeeping Requirements

4.1 Recordkeeping Requirements

- **Comply with firm and regulatory requirements regarding review of correspondence, complaints and records**
- **Comply with all document retention requirements, including any action taken**

4.1.1 Books and Records

Amex Rules

Article XI, Sec. 3—Keeping of Books

Rule 31—Requests for books, papers, records or testimony

Rule 302—Provisions with respect to books of account

Rule 324—Books and Records

Rule 448—Requirements for Control of Securities Periodic Security Counts

Rule 922(b)—Maintenance of customer records

CBOE Rules

Rule 15.1—Maintenance, retention and furnishing of books, records and other information

NASD Rules

Rule 3110—Books and records

NYSE Rules

Rule 410(a)(1-4)—Records of orders

Rule 440—Books and records

PCX Rules

Rule 11.16(a)—Books and records

PHLX Rules

Rule 760—Maintenance, retention and furnishing of books records and other information

Securities Exchange Act of 1934

Rule 17a-3—Records to be made by certain exchange members, brokers and dealers

Rule 17a-4—Records to be preserved by certain exchange members, brokers, and dealers

Rule 17a-5(c)—Reports to be made – customer statements

Rule 17a-8—Financial record keeping and reporting of currency and foreign transactions

Rule 17f-1—Requirements for reporting and inquiry with respect to missing, lost, counterfeit or stolen securities

4.2 Customer Complaints

- **Review and investigate customer complaints (oral and written)**
- **Document and keep records of customer complaints**
- **Ensure that complaints are forwarded to main office within prescribed time frames**
- **Comply with firm and SRO reporting requirements**
- **Ensure that options related complaints are segregated and forwarded to main office within prescribed time**

4.2.1 Handling Customer Complaints

Amex Rules

Rule 932—Customer complaints

Rule 1105—Customer Complaints

CBOE Rules

Rule 9.23—Customer complaints

MSRB Rules

Rule G-8(a)(xii)—Books and records to be made - customer complaints

Rule G-9(a)(v)—Records to be preserved for six years – customer complaints

Rule G-10—Delivery of investor brochure

Rule G-27 (c)(ii)—Procedures for customer complaints

NASD Rules

Rule 2860(b)(17)—Maintenance of records

Rule 3110(d)—Record of written complaints

Rule 3110(e)—“Complaint” defined

NYSE Rules

Rule 351(d)—Reporting Requirements

Rule 732—Customer complaints

PCX Rules

Rule 2.17(c) —Termination – filing of an amended U-5

PHLX Rules

Rule 1070—Customer complaints

4.2.2 Reporting Requirements

Amex Rules

Rule 341, Commentary .09—Termination of employment – Form U5 Filing

CBOE Rules

Rule 4.9—Disciplinary actions by other organizations

Rule 9.3(b)—Termination – reporting of U-5s

Rule 9.3(c)—Termination – filing of amended U-5s

NASD Rules

Rule 3070—Reporting requirements

NYSE Rules

Rule 351(a)(2)(8)—Reporting requirements

PCX Rules

Rule 2.17(c)—Termination-filing of an amended U-5

4.3 Securities Investor Protection Act and SIPC Rules

- **Know coverage limits for various types of accounts**
- **Know advertising requirements by members of SIPC**

4.3.1 Securities Investor Protection Act and SIPC Rules Thereunder

5.0 Municipal Securities Regulation

5.1 Conduct of Business

- **Understand which persons and/or entities are included in the definition of customer**
- **Understand the relevant factors in determining fairness of prices**
- **Ensure proper handling of material, non-public information**
- **Understand the rules and requirements relating to political contributions made to officials of an issuer**
- **Comply with firm's procedures for reporting of political contribution**

5.1.1 Transactions with Customers

Rule D-9—"Customer"

Rule G-3(a)(iii)(A)—Restrictions on apprentices

5.1.2 Business Practice

Rule G-13—Quotations relating to municipal securities

Rule G-17—Conduct of municipal securities activities – "fair dealing"

Rule G-18—Execution of transactions

Rule G-30—Prices and commissions

5.1.3 Political Contributions and Prohibitions on Municipal Securities Business

Rule G-37(a)-(d)—Political contribution and prohibitions on municipal securities business

Rule G-37(e)—Disclosures to Board

Rule G-37(g)(i), (iv), (vi) and (vii)—Definitions related to the conduct of municipal securities business

5.2 New Issue Underwriting

- **Understand the priority to be accorded different types of orders and how allocations of securities are affected**
- **Understand the requirement to disclose group orders**
- **Ensure that disclosure requirements relating to new issues of municipal securities are satisfied**

5.2.1 Sales of New Issue Municipal Securities During the Underwriting Period

Rule G-11(d) and (e)—Disclosure of group orders and priority provisions

Rule G-32(a)—Customer disclosure requirements

5.3 Municipal Fund Securities (including 529 College Savings Plans)

- **Understand how municipal fund securities differ from registered mutual funds and municipal bonds**
- **Understand the differences between municipal fund securities and the underlying investments, and the risks associated with both**

- **Demonstrate product knowledge of municipal fund securities, including comparisons to alternative education savings products**
- **Understand who is qualified to sell municipal fund securities**
- **Understand procedures related to confirmations or statements sent with sales of municipal fund securities**
- **Ensure that disclosure requirements relating to sales of municipal fund securities are met**
- **Understand sales practice issues with regard to municipal fund securities**

5.3.1 Sales of Municipal Fund Securities

Rule D-12—"Municipal fund security"

Rule G-15(a)(i), (a)(vii) – (viii)—Customer confirmations

Rule G-32(a)(i)(A)—Customer disclosure requirements

5.4 Trading

- **Ensure that municipal securities offerings disseminated by any means reflect current prices and amounts of securities available**
- **Prohibit reciprocal dealings with municipal securities investment companies**
- **Maintain current records for agency transactions and transactions as principal**

5.4.1 Recordkeeping and Reporting Requirements

Rule G-8(a)(vi) – (vii)—Records for agency and principal transactions

Rule G-9(b)(iii) – (iv)—Records to be preserved for three years

Rule G-14(a), (b)(i) – (ii)—Transaction reporting procedures

5.4.2 Trading with Municipal Securities Investment Companies

Rule G-31—Reciprocal dealings with municipal securities investment companies

5.5 Confirmation, Clearance and Settlement of Transactions

- **Ensure that requirements to send written confirmations are met**
- **Ensure that all deliveries of securities are made in accordance with MSRB requirements**
- **Understand the requirements of DVP/RVP transactions**
- **Ensure timely response to claims of interest payments due on securities previously delivered to (or by) a customer**
- **Maintain records of confirmations and certain other notices to customers**

5.5.1 Recordkeeping Requirements

Rule G-8(a)(ix)—Customer account information

Rule G-9(b)(v)—Records to be preserved for three years

5.5.2 Confirmation, Clearance and Settlement of Transactions with Customers

Rule G-15(a) – (e)—Customer confirmations

6.0 Options Regulation

6.1 Listed Options

- **Understand terms and definitions of options**
- **Apply knowledge of terms and definitions in supervising options**
- **Understand terms and definitions applicable to narrow-based indices**

6.1.1 **Equity Options** - Underlying securities, expiration cycles, strike price intervals, adjustment to option terms, expiration date

Amex Rules

Rule 900—Applicability, definitions and references

Rule 900-ANTE—Applicability, definitions and references

CBOE Rules

Rule 1.1—Definitions

NASD Rules

Rule 2522—Definitions

Rule 2860(b)(2)—Definitions

NYSE Rules

Rule 700—Definitions

PHLX Rules

Rule 1000—Applicability, definitions and references

Rule 1010—Withdrawal of approval of underlying securities

Rule 1012—Series of options open for trading – Commentary .05(a)

6.1.2 **Index Options** - Broad-based index, narrow based index, industry-based index, exercise style, expiration date, daily exercise, exercise assignment (European, American)

Amex Rules

Rule 900C— Applicability and Definitions

CBOE Rules

Chapter XXIV—Index options

NASD Rules

Rule 2871—NASDAQ index options - Definitions

NYSE Rules

Rule 700(b)(2A)—American style index options

Rule 700(b)(19)—European style index options

PCX Rules

Section 3—Index options

PHLX Rules

Rule 1006—Other restrictions on exchange options transactions and exercises

Rule 1101A(a) and (ii)—Terms of option contracts

6.1.3 **Foreign Currency Options** - contract sizes, expiration date, expiration style (American style, European style), trading hours, expiration cycles

PHLX Rules

Rule 1000(b)(13)—Definitions – foreign currency

Rule 1012(a)(ii)—Foreign currency options series

Rule 1016—Block transactions in foreign currency options

6.2 Strategy Investment Posture for Various Market Scenarios and Their Tax Implications

- **Assist RRs in formulating investment strategy for customers**
- **Know how to calculate profit, loss and breakeven points of various strategies**
- **Identify uneconomic trades**
- **Understand wash sales and their impact on customer accounts**
- **Understand tax implications of options transactions**

6.2.1 Strategies for Using Puts and Calls – Call buying strategies, put buying strategies, covered call writing concepts, put writing concepts; spread, straddle, synthetic position; neutral, bullish and bearish outlook

6.2.2 Calculations of Profit, Loss and Breakeven

Calculate profit, loss and breakeven limits and amounts at expiration of aggregate positions relative to movements in the underlying security – percentage return (loss)

Limits will fluctuate from time of recommendation to time of close-out or expiration

6.2.3 Tax Treatment of Options – Holding period; wash sale rules; determination of cost basis; determination of taxable event; cabinet trading

6.2.3.1 Options purchased by investors

Subsequent sale of options

Expired options

Exercised call options

6.2.3.2 Options written by investors

Subsequent purchase of options

Expired options

Exercised put/call options

6.3 Supervising Options Sales Practices

- **Conduct suitability review to ensure use of options is consistent with client profile**
- **Understand written supervisory procedures, application and adherence thereto**
- **Understand documentation requirements for options accounts**
- **Ensure compliance with firm's written supervisory procedures for trading of options**
- **Ensure that RRs receive adequate training in options**

6.3.1 Client Account Documentation

- **Review account documentation for completion**

- **Review to ensure customer verification within 15 days of ROP approval and receipt of signed options agreement**
- **Ensure options disclosure document is delivered at or prior to account approval**
- **Provide special statement for uncovered writers**
- **Ensure that accounts approved for uncovered options transactions meet the firm's internal standards for approval**
- **Understand minimum net equity requirements for approval and maintenance of uncovered transactions**
- **Ensure that any exceptions must be approved and evidenced by SROP/CROP**

6.3.1.1 Account documentation

Amex Rules

Rule 921, Commentaries .01 and .02—Opening of Accounts: Minimum information to be obtained

CBOE Rules

Rule 9.7(b)—Diligence in opening account, interpretations and policies .01

NASD Rules

Rule 2860(b)(16)(A)(B)(D)—Opening of accounts

Rule 2860(b)(17)—Maintenance of records

NYSE Rules

Rule 721—Opening of accounts

PHLX Rules

Rule 1024 (b)(ii)—Diligence in opening accounts

Rule 1024—Commentary .01—minimum information to be obtained

6.3.1.2 Customer verification

Amex Rules

Rule 921(d) and Commentary .03—Verification of customer background and financial information

Rule 921(e)—Agreements to be obtained

CBOE Rules

Rule 9.7(c)—Verification of customer background and financial information

Rule 9.7(d)—Agreements to be obtained

NASD Rules

Rule 2860(b)(16)(C)—Opening of accounts

NYSE Rules

Rule 721(c)—Verification of customer background and financial information

Rule 721(d)—Agreements to be obtained

PHLX Rules

Rule 1024(b)(iii) —Verification of customer background and financial information

Rule 1024(b)(iv) —Agreements to be obtained

6.3.1.3 Delivery of disclosure document

Amex Rules

Rule 921(f)—Options disclosure document to be furnished

CBOE Rules

Rule 9.7(e)—Options disclosure documents to be furnished

Rule 9.15—Delivery of current options disclosure document

NASD Rules

Rule 2860(b)(11)—Delivery of current disclosure document(s)

NYSE Rules

Rule 726—Delivery of options disclosure document and prospectus

PHLX Rules

Rule 1024(b)(v)—Options disclosure documents to be furnished

6.3.1.4 Minimum net equity requirements

Amex Rules

Rule 921(g)(4)—Minimum net equity requirements

CBOE Rules

Rule 9.7(f)(4)—Opening of accounts

NASD Rules

Rule 2520—Margin requirements

NYSE Rules

Rule 721(e)4—Uncovered short option accounts

6.3.1.5 Special statement for uncovered writers

Amex Rules

Rule 921(g)(5)—Special written description of the risks

CBOE Rules

Rule 9.7(f)(5)—Opening of accounts

Rule 9.15(c)—Delivery of current options disclosure documents and prospectus

NASD Rules

Rule 2860(b)(9) —Rights and obligations of holders and writers

Rule 2860(b)(16)(E) —Uncovered short option contracts

NYSE Rules

Rule 721(e)(5)—Uncovered short option accounts

Rule 726(c)—Uncovered short options risk disclosure

PHLX Rules

Rule 1029—Delivery of options disclosure documents and prospectus

6.3.1.6 Uncovered options transactions

Amex Rules

Rule 921(g) and Commentary .04—Written procedures

CBOE Rules

Rule 9.7(f)—Opening of accounts

Rule 9.8(a)—Duty to supervise

NASD Rules

Rule 2860(b)(7) —Limit on uncovered short positions

NYSE Rules

Rule 721(e)—Uncovered short option accounts

PCX Rules

Rule 6.18—Limits on uncovered short options

PHLX Rules

Rule 1024(c)—Uncovered options supervision

6.3.2 Written Supervisory Procedures

- **Supervise RR and customer activities relating to options**
- **Ensure that SROP approves options discretionary accounts**
- **Ensure that CROP provides frequent appropriate supervisory review**
- **Ensure that discretionary option orders are approved and initialed on the day entered**
- **Ensure that options programs are in writing**

6.3.2.1 Supervision

Amex Rules

Rule 922—Supervision of Accounts

CBOE Rules

Rule 9.8(a)—Supervision of accounts, duty to supervise, Senior registered options
Principal and interpretations and policies (.01) and (.02)

NASD Rules

Rule 2860(b)(20)—Supervision of accounts

NYSE Rules

Rule 722 (a)—Supervision of accounts; Duty to supervise; SROP

Rule 722 (b)—Compliance registered options principal

PCX Rules

Rule 9.2—Account supervision

Rule 11.18—Supervision

PHLX Rules

Rule 1025—Supervision of accounts

6.3.2.2 Options discretionary accounts authorization and approval

Amex Rules

Rule 924(a)—Authorization and approval

CBOE Rules

Rule 9.10—Authorization and approval required

NASD Rules

Rule 2860(b)(18)—Discretionary accounts

NYSE Rules

Rule 724—Discretionary accounts

PCX Rules

Rule 9.6(a)—Discretion as to customer's accounts

Rule 9.6(b)—Records of discretionary accounts

Rule 9.6(c)—Marking discretionary orders

PHLX Rules

Rule 1027—Discretionary accounts

6.3.2.3 Options programs

Amex Rules

Rule 924(b)—Discretionary account-options programs

CBOE Rules

Rule 9.10(e)—Options programs

NASD Rules

Rule 2860(b)(18)(C)—Options programs

NYSE Rules

Rule 724(b)—Options programs

PHLX Rule

Rule 1027(b)—Discretionary accounts – Options Programs

6.3.3 Margin Requirements

- Understands the margin implications associated with various options strategies
- Understands margin requirements (initial and maintenance), the nature of margin for security futures, and the acceptable collateral deposits
- Understands how margin is calculated (initial and maintenance; mark to market; calls)

- **Supervises for compliance with the special margin requirements for pattern day traders**

6.3.3.1 Extensions of credit in the securities industry applicable to options – uniform short options margin requirements

- Amex Rules
 - Rule 462—Minimum margins
- CBOE Rules
 - Chapter XII—Margins
- NASD Rules
 - Rule 2520(f)(2)—Puts, calls and other options
- NYSE Rules
 - Rule 700(b)(14)—Covered short positions
- Regulation T

6.4 Communications with Customers – Advertisements, Educational Material, Sales Literature

- **Supervise RRs' use of options advertisements, sales literature and educational material**
- **Ensure that options materials comply with SRO requirements, *e.g.*, pre-use approval, content requirements, CROP approval**
- **Ensure proper disclosures**
- **Ensure compliance with recordkeeping and record retention requirements**
- **Ensure that all advertisements, educational material and sales literature are approved in advance by the CROP**

6.4.1 Definitions

- Amex Rules
 - Rule 991(e)—Definitions
- CBOE Rules
 - Rule 9.21(e)(i), (ii), (iii)—Definitions
- NASD Rules
 - Rule 2220(a)—Definitions
- NYSE Rules
 - Rule 791(e)—Communications to customers, Definitions
- PHLX Rules
 - Rule 1049—Communications to customers

6.4.2 CROP Approval Requirements

- Amex Rules
 - Rule 991(b)—Approval by CROP
- CBOE Rules
 - Rule 9.21(b)—Approval by CROP
- NASD Rules
 - Rule 2220(b)—Approval by CROP and recordkeeping
- NYSE Rules
 - Rule 791(b)—Approval by CROP
- PHLX Rules
 - Rule 1049(b) —Approval by a CROP

6.4.3 SRO Approval Requirements

Amex Rules

Rule 991(c)—Exchange approval required for options advertisements and educational material

CBOE Rules

Rule 9.21(c)—Exchange approval required for options advertisements and educational material

NASD Rules

Rule 2220(c)—Association approval requirements and review procedures

NYSE Rules

Rule 791(c)—Exchange approval required for options advertisements and educational material

PHLX Rules

Rule 1049(c)—Exchange approval required for options advertisements and educational material

6.4.4 Options Disclosure Documents Delivery Requirements

Amex Rules

Rule 926—Delivery of Options Disclosure Document and Prospectus

Rule 991(d)—Delivery of disclosure documents

CBOE Rules

Rule 9.21(d)—Communication to customers

NYSE Rules

Rule 791(d)—Options disclosure document required

6.4.5 Guidelines and Standards of Approval

Amex Rules

Rule 991(a)—Communications to customers: General Rule

CBOE Rules

Rule 9.21—Communications to customers

Rule 9.21.01—Special risks

Rule 9.21.02—Advertisements

Rule 9.21.03—Educational material

Rule 9.21.04—Sales literature

NASD Rules

Rule 2220(d)—Standards applicable to communications with the public

NYSE Rules

Rule 791(a)—Communications to customers

PCX Rules

Rule 9.28—Advertisements, market letters and sales literature relating to options

PHLX Rules

Rule 1049—Communications to customers

6.5 Trading Practices

- **Understand the roles and responsibilities of market participants**
- **Understand when and why a trading rotation and fast markets will be utilized**
- **Comply with relevant position/exercise limits**
- **Ensure appropriate aggregation of accounts for reporting position limits, exercise limits, and large positions**
- **Understand contract adjustment due to such events as splits, mergers, dividends**
- **Review orders to ensure that they are eligible for electronic order routing/execution**

6.5.1 Terms and Definitions

Amex Rules

- Rule 170—Registration and Functions of Specialists
- Rule 156—Representation of Orders
- Rule 950(g) and (n)—Floor Rules Applicable to Options: Rules of general applicability
- Rule 958—Options transactions of registered traders

CBOE Rules

- Rule 6.45—Priority of bids and offers-allocation of trades
- Rule 6.70—Floor broker defined
- Rule 6.73—Responsibilities of floor brokers
- Rule 8.1—Market maker defined
- Rule 8.8—Restriction on acting as market maker and floor broker

PCX Rules

- Rule 6.52—Obligations for orders

6.5.2 Trading Rotation

Amex Rules

- Rule 1, Commentary .02—Options Trading after 4:02 p.m.
- Rule 918—Trading Rotations, Halts and Suspensions
- Rule 918C—Trading Rotations, Halts and Suspensions
- Rule 918-ANTE—Trading Rotations, Halts and Suspensions

CBOE Rules

- Rule 6.2—Trading rotations
- Rule 6.2A—Rapid opening system
- Rule 6.2B—Hybrid opening system

NYSE Rules

- Rule 717 (a)—Trading rotations

PCX Rules

- Rule 6.64—Trading rotations

PHLX Rules

- Rule 1047—Trading rotations, halts and suspensions

6.5.3 Fast Markets

Amex Rules

- Rule 958A(d)—Use of Unusual Market Exception
- Rule 958A-ANTE(d)— Use of Unusual Market Exception

CBOE Rules

- Rule 6.3—Trading halts and suspensions

NYSE Rules

- Rule 717(b)—Trading halts

PHLX Rules

- Rule 1047—Trading rotations, halts and suspensions

6.5.4 Position and Exercise Limits

Amex Rules

- Rule 904—Position limits
- Rule 904C—Position limits
- Rule 905—Exercise limits
- Rule 905C—Exercise limits

CBOE Rules

- Rule 4.11—Position limits
- Rule 4.12—Exercise limits
- Rule 24.4—Position limits for broad-based index options
- Rule 24.4A—Position limits for industry index options

Rule 24.5—Exercise limits
Rule 24.18—Exercise of American-style index options
NASD Rules
IM-2860-1—Position limits
Rule 2860(b)(4)—Exercise limits
NYSE Rules
Rule 704—Position limits
Rule 705—Exercise limits
PHLX Rules
Rule 1001—Position limits
Rule 1001A—Position limits – options on indices
Rule 1002 – Exercise limits

6.5.5 Contract Adjustments

Amex Rules
Rule 956—Open orders on “ex-date”
Rule 903(c) and (d)—Series of options opened for trading
CBOE Rules
Rule 5.7— Adjustments
NYSE Rules
Rule 703(g)—Contract adjustments

6.5.6 Exercise/Assignment of Options

- **Understand the mechanics and ramifications of the tendering of exercise notices for options; exercise by exception and same day exercise**
- **Understand the effect of exercise prior to ex-dividend date**
- **Understand applicable time limitations**
- **Understand the mechanics and effects of assignment, particularly on ex-dividend date**
- **Understand OCC assignment procedure and firm/market maker/customer assignment**
- **Understand firm procedures for allocating customer assignments (FIFO, random)**
- **Ensure customer notification of allocation method**
- **Ensure compliance with requirement for delivery and payment/settlement**
- **Understand priority offered orders**
- **Understand time priority**
- **Understand off-floor accommodations and the necessary reporting obligations**

6.5.6.1 Tender of exercise notices

Amex Rules

Rule 980—Exercise of options contracts

Rule 980C—Exercise of stock index options contracts

Rule 980D—Exercise of options contracts

CBOE Rules

Rule 11.1—Exercise of option contracts

NASD Rules

Rule 2860(b)(23)—Tendering procedures for exercise of options

NYSE Rules

Rule 780—Exercise of options contracts

PCX Rules

Rule 5.24—Exercise of options contracts

PHLX Rules

Rule 1042—Exercise of equity option contracts

Rule 1042A—Exercise of option contracts – options on indices

6.5.6.2 Assignment of exercise notices

Amex Rules

Rule 981—Allocation of Exercise Notices

Rule 982—Delivery and payment

CBOE Rules

Rule 11.2—Allocation of exercise notices

Rule 11.3—Delivery and payment

NYSE Rules

Rule 781—Allocation of exercise assignment

PHLX Rules

Rule 1043—Allocation of exercise notices

6.5.6.3 Off-floor accommodations

Amex Rules

Rule 959—Accommodation transactions

CBOE Rules

Rule 6.54—Accommodation liquidations

NASD Rules

Rule 2860(b)(24)—Options transactions and reports by market makers in listed securities

NYSE Rules

Rule 756—Transaction off the exchange

Rule 759—Accommodation transactions

PCX Rules

Rule 6.37—Obligations of market makers

Rule 6.46—Responsibilities of floor brokers

PHLX Rules

Rule 1059—Accommodation transactions

Sample Questions

The questions that follow are similar in format and content to questions in the examination. This sample of questions, however, is not intended to parallel exactly either the level of difficulty or the distribution of topics in the examination. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple-choice questions that will appear in the examination.

Answers to Sample Questions

1. (B)
2. (C)
3. (A)
4. (C)

Sample Questions

1. Under the Uniform Gifts to Minors Act/Uniform Transfer to Minors Act, how can stock subscription rights or warrants be handled in a custodial account?

- (A) The custodian cannot exercise or sell the rights for a custodial account.
- (B) The custodian may exercise or sell the rights as he deems suitable.
- (C) The rights may be exercised or sold only if the donor is also the custodian.
- (D) The rights may be exercised or sold only if the stock certificates are held in street name.

2. How long must advertisements, market letters and sales literature issued by a member organization pertaining to listed options be retained and readily available for inspection?

- (A) 6 months
- (B) 1 year
- (C) 3 years
- (D) 5 years

3. A customer holds 10 XYZ Apr 30 calls in his account. The current market price of XYZ is \$35. The customer instructs his registered representative to exercise the options and sell the shares on the same day. Under Regulation T, the customer is required to deposit cash in what amount?

- (A) 0
- (B) \$15,000
- (C) \$17,500
- (D) \$30,000

4. Which of the following contributions made by a municipal finance professional is considered a reportable political contribution?

- (A) Charitable donation to an organization made at the request of an issuer official
- (B) Contributions to bond election committees supporting ballot measures for bond and tax levies
- (C) Contribution to an issuer official who is seeking election to a federal office
- (D) Contribution to an issuer official made by the spouse of a municipal finance professional