



Municipal Securities Rulemaking Board

Municipal Securities Representative Qualification Examination (Series 52)

CONTENT OUTLINE



Municipal Securities Representative Qualification Examination (Series 52)



CONTENTS

Introduction	2
Part 1: Municipal Securities	4
Part 2: Economic Activity, Government Policy and the Behavior of Interest Rates	9
Part 3: Securities Laws and Regulations	10
References	12
Sample Questions	13

INTRODUCTION

This content outline is intended to help candidates prepare for the Municipal Securities Representative Qualification Examination (Series 52) by providing relevant information about the examination itself and sharing pertinent information about the content areas that are covered. The sample questions that appear on page 13 are similar to the types of multiple-choice questions that will appear in the examination. In addition, government and other self-regulatory organization websites that may be useful in preparing for the examination are provided at the end of the outline.

The questions used in the examination are reviewed and updated on a regular basis and reflect current market practices. Questions that test new rules or amendments will be included in the examination after the effective date of the rule or rule change. Existing questions on rules or portions of rules that have been deleted will be removed from the examination prior to the effective date of the amendment. The Series 52 exam is developed and maintained by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization that establishes rules for municipal securities dealers and municipal advisors.

THE MUNICIPAL SECURITIES REPRESENTATIVE

The municipal securities representative is any natural person associated with a broker, dealer or municipal securities dealer, other than a person whose functions are solely clerical or ministerial, whose activities include one or more of the following:

- underwriting, trading or sales of municipal securities;
- financial advisory or consultant services for issuers in connection with the issuance of municipal securities;
- research or investment advice with respect to municipal securities; or
- any other activities which involve communication, directly or indirectly, with public investors in municipal securities.

THE EXAMINATION

The Municipal Securities Representative Qualification Examination is designed to measure a candidate's qualification and competency to engage in the municipal securities business. The examination includes questions on municipal securities, the municipal market, economic activity, government policy, factors affecting interest rates, and applicable federal securities laws and regulations.

The percentages assigned to each of these topics on the examination are as follows:

Municipal Securities	60%
Economic Activity, Government Policy and the Behavior of Interest Rates	14%
Securities Laws and Regulations	26%

The examination includes 75 scored multiple-choice questions that test the topics specified in this outline. Each multiple-choice question is worth one point and the passing grade set by the MSRB is 70%. It is in a candidate's best interest to answer all questions because an unanswered question is considered an incorrect answer. To ensure that all new questions meet acceptable testing standards prior to use for

scoring purposes, each question is pretested. Each candidate exam includes 5 additional, unidentified pretest questions that do not contribute toward the candidate's score. The 5 questions are randomly distributed throughout the exam. Therefore, each exam consists of a total of 80 questions (75 scored and 5 unscored). Candidates are allowed two and one half hours to complete the examination.¹

Because the examination is a closed-book test, candidates are not permitted any reference materials during the test administration. If needed, electronic calculators will be provided by the test center or within the examination.

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 and administrative 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 were determined 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.²

¹ The examination is administered by FINRA on its PROCTOR system. For further information on application and administration procedures for MSRB examinations, please contact FINRA at 301-590-6500.

² 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: MUNICIPAL SECURITIES (60% OF TEST QUESTIONS)

1.1 Types of Municipal Securities

1.1.1 General obligation bonds:

1.1.1.1 Source of payment: *generally payable from taxes (limited tax; unlimited tax);*

1.1.1.2 Limitations on issuance (*voter approval; statutory or constitutional*)

1.1.2 Revenue bonds:

1.1.2.1 Source of payment: *generally payable from project revenues*

1.1.2.2 Limitations on issuance: *Usually not subject to statutory debt limitations; may be issued by any authorized political entity*

1.1.2.3 Purposes: *Utility revenue (e.g., water, sewer, electric); housing revenue (e.g., single-family, multi-family); transportation (e.g., airport revenue, toll road); education (e.g., dormitory, student loan, general revenue); health (e.g., hospital, life care); industrial (e.g., industrial development, pollution control)*

1.1.3 **Special type bonds:** *Special tax; special assessment; moral obligation; double-barreled; lease rental; certificate of participation (COP)*

1.1.4 **Taxable municipal securities:** *Build America Bonds (BABs); taxable municipal bonds; other tax credit bonds*

1.1.5 Short-term obligations

1.1.5.1 Notes: *Tax anticipation notes (TAN); tax and revenue anticipation notes (TRAN); bond anticipation notes (BAN); revenue anticipation notes (RAN); variable rate demand obligations (VRDOs); multi-modal; grant anticipation notes (GAN); construction loan notes (CLN)*

1.1.5.2 Tax-exempt commercial paper

1.1.6 **Municipal fund securities** (Basic characteristics, ownership and contribution limits)

1.2 Characteristics of Municipal Securities

1.2.1 Basic characteristics

1.2.1.1 Method of quotations: *Yield; dollar price; bid/ask spread*

1.2.1.2 Forms of ownership: *Fully registered; book-entry only*

1.2.1.3 Depository eligibility

1.2.1.4 Delivery procedures: *Cash (same day); regular way; delayed delivery; special settlement (as mutually agreed upon); forward delivery*

1.2.1.5 Legal opinion

1.2.1.6 Interest

- 1.2.1.6.1 Rates: *Fixed; variable/floating; capital appreciation bonds (zeros); zeros; convertible/stepped coupons*
- 1.2.1.6.2 Payment periods
- 1.2.1.7 Maturity: *Term; serial*
- 1.2.1.8 Denominations
- 1.2.1.9 Early redemption
- 1.2.1.9.1 Types: *Optional; sinking fund; extraordinary; mandatory; make whole call*
- 1.2.1.9.2 Bond refunding methods: *Direct exchange versus sale of new issue; refunding (current); advance refunding (pre-refunding); escrowed to maturity (ETM); crossover refunding*
- 1.2.1.9.3 Procedures: *Tender; call; puts; open-market purchase*
- 1.2.1.9.4 Advantages and disadvantages: *To issuer; to investor*

- 1.2.2 **Tax considerations**
- 1.2.2.1 Interest
- 1.2.2.1.1 Federal income tax status: *Tax-exempt; taxable; alternative minimum tax (AMT); bank qualified bonds*
- 1.2.2.1.2 State and local income tax status
- 1.2.2.1.3 Value of tax exemption: *To investor; to issuer*
- 1.2.2.2 Principal
- 1.2.2.2.1 Premiums and discounts: *Amortization of premiums; accretion of discounts; tax consequences for different types of investors; de minimis exemption on original issue discount (OID) bonds*
- 1.2.2.2.2 Capital gains/losses: *Cost basis; rates; wash sales; offsets; tax swaps*
- 1.2.2.2.3 Original issue discount/premium
- 1.2.2.2.4 Market discount/premium
- 1.2.2.2.5 Compound accreted value

- 1.2.3 **Factors affecting marketability and liquidity:** *Ratings; maturity; call feature; coupon; block size; issue size; dollar/yield price; issuer name, local or national; sinking fund; blue sky laws; credit and liquidity support; denominations; type of issuance; source of funds*

1.3 The Market for Municipal Securities

- 1.3.1 **Primary Market**
- 1.3.1.1 Methods of primary financing:
 - 1.3.1.1.1 Competitive sale
 - 1.3.1.1.2 Negotiated sale: *Public offering; private placement (limited offering)*
- 1.3.1.2 Information sources
 - 1.3.1.2.1 Notice of Sale
 - 1.3.1.2.2 Official statement: *Preliminary; final*
 - 1.3.1.2.3 Issuers or financial advisors

- 1.3.1.2.4 Electronic Municipal Market Access (EMMA®) website
- 1.3.1.2.5 New issue/commitment wires
- 1.3.1.2.6 Print and electronic news services
- 1.3.1.3 Underwriting procedures
 - 1.3.1.3.1 Account formation procedures: *Determining members and participation; underwriting account agreement—documents (syndicate letter (competitive); agreement among underwriters (negotiated)); types of accounts (undivided; divided); roles of underwriters (responsibilities of manager; responsibilities of members); selling groups*
 - 1.3.1.3.2 Determination of syndicate bid: *Components (scale, spread, interest rates); computation of bid—production, swing coupon; bid price; terms and conditions; submission of bid; basis for award (net interest cost; true interest cost (Canadian method); gross interest cost); bond years; factors relevant to the member's participation in the bid (pre-sale orders; determination of liability; scale and spread; ability to sell this issue)*
 - 1.3.1.3.3 Syndicate operational procedures
 - 1.3.1.3.3.1 Establish offering terms: *Order period; concessions and takedowns; retention bonds; priority provisions (retail orders; group orders; designated orders; member orders)*
 - 1.3.1.3.3.2 Establish time of first trade
 - 1.3.1.3.3.3 Settlement terms: *When-as-and-if-issued; establishment of delivery dates; final accounting and settlement*
 - 1.3.1.3.3.4 Required disclosures: *EMMA (primary offerings, material event notices); NIIDS; SHORT; delivery of official statement*
- 1.3.1.4 Functions of a bond attorney: *Determine authority for bond issuance; render a legal opinion concerning tax status; issue a legal opinion*
- 1.3.1.5 Role of financial advisor
- 1.3.2 **Secondary Market**
 - 1.3.2.1 Traded over-the-counter (OTC)
 - 1.3.2.2 Information sources: *Dealers' offering sheets; brokers' brokers communications; inter-dealer communications; EMMA; electronic information services*
 - 1.3.2.3 Market participants: *Institutional; retail; dealers; municipal advisors; brokers' brokers; alternative trading systems (ATS)*
 - 1.3.2.4 Secondary market procedures
 - 1.3.2.4.1 Kinds of transactions: *Principal; agency; riskless principal*
 - 1.3.2.4.2 Trading terms: *Bid; offering; list; down bid; workable indications; evaluation; all or none (AON); minimums and multiples; out firm; fill-or-kill; locked market; cover bid*
 - 1.3.2.5 Functions of a municipal bond trader: *Make markets; position trading; joint accounts; appraisals and evaluations; hedging*
- 1.3.3 **Market indicators**
 - 1.3.3.1 Published indices: *Bond Buyer indices (visible supply; placement ratio); MMD curve; SIFMA index; U.S. Treasuries; London Interbank Offered Rate (ICE/LIBOR)*
 - 1.3.3.2 Other market-level indicators: *New-issue scales; electronic trading information platforms; market activity in other securities; current economic factors; futures*

1.3.4 Customer suitability considerations

1.3.4.1 Financial profile

1.3.4.2 Tax status

1.3.4.3 Investment objectives: *Safety of principal; income liquidity; growth; speculation*

1.3.4.4 Diversification: *Geographical; maturity; purpose of issue; security; quality*

1.3.4.5 Investment risks: *Financial (credit risk); market (interest rate risk); put and call features; legislative risk; inflationary risk; reinvestment risk; price risk; selection risk; timing risk; liquidity risk*

1.4 Analyzing Municipal Credit

1.4.1 General obligation securities

1.4.1.1 Demographic considerations: *Tax base; diversification of economic activity; population trends; geography*

1.4.1.2 Nature of the issuer's debt: *Present and past attitudes toward debt; debt trend; schedule of debt service requirements; contemplated financing; relation of debt to the life of improvement*

1.4.1.3 Factors affecting ability to pay: *Budgetary practices and legislative climate; current financial condition; Unfunded liabilities (pension funds, etc.); tax limitations; tax rates, trends and comparisons; tax collection record; trends in assessed valuation; non-tax revenues; overlapping debt; litigation*

1.4.1.4 Municipal debt ratios: *Net overall (direct and overlapping) debt to assessed valuation; net overall (direct and overlapping) debt to estimated real valuation; per capita net debt; debt service to annual revenues*

1.4.2 Revenue bonds

1.4.2.1 Feasibility study: *Need for project; existing or potential competitive facilities; engineering reports; economic viability*

1.4.2.2 Sources of revenue: *User charges; concessions and fees; special taxes; rental or lease payments (public agencies; private agencies); legislative appropriation*

1.4.2.3 Security

1.4.2.3.1 Bond indenture: *Rate covenant; insurance covenant; operation and maintenance covenant; requirement for financial reports and outside audits; restrictions on issuance of additional bonds (open-end indenture; closed-end indenture; project completion)*

1.4.2.3.2 Flow of funds: *Types of funds (revenue; operation and maintenance; sinking fund or debt service; debt service reserve; reserve maintenance; renewal and replacement; surplus; construction); application of revenue (net revenue pledge; gross revenue pledge)*

1.4.2.3.3 Debt service coverage

1.4.3 **Sources of credit information:** *The issuer; continuing disclosure information (EMMA); advisory councils and services of certain states; commercial research services; industry and general publications*

1.4.4 **Rating services**

1.4.5 **Credit enhancements:** *Letters of credit (LOC); advance refunded; insurance; escrow*

1.5 Mathematical Calculations and Methods

- 1.5.1 **Yields:** *Yield to early redemption (put; call; par option; average life (sinking fund)); yield to maturity; current yield; after-tax yield; taxable equivalent yield*
- 1.5.2 **Duration**
- 1.5.3 **Basis points:** *Dollar value of a basis point; convexity*
- 1.5.4 **Dollar value of points and fractions**
- 1.5.5 **Accrued interest:** *Regular coupon; odd first coupon (long or short)*
- 1.5.6 **Level debt service**
- 1.5.7 **Capital gains**
- 1.5.8 **Flat**
- 1.5.9 **Market discount**
- 1.5.10 **Amortization of premium**
- 1.5.11 **Accretion of discount (OID)**



PART 2:
ECONOMIC ACTIVITY, GOVERNMENT POLICY
AND THE BEHAVIOR OF INTEREST RATES
(14% OF TEST QUESTIONS)

2.1 Monetary Policy

- 2.1.1 Major factors influencing Federal Reserve policy:** *Monetary aggregates; economic indices (Consumer Price Index; unemployment rate (non-farm payroll); housing starts (existing home sales); foreign trade deficits; purchasing manager's report; leading/lagging/co-existent indicators; Producer Price Index; Gross Domestic Product); commodity prices; foreign exchange rates; international economic activity*

2.2 Fiscal Policy

- 2.2.1 U.S. Treasury debt management practices—impact of short-term and long-term financings**
- 2.2.2 Federal budgetary practices and their impact on the money and capital markets:** *Deficits and surpluses; taxation and spending*

2.3 Factors Affecting Interest Rates

- 2.3.1 Supply and demand for credit relative to the economic cycle**
- 2.3.2 The effect of inflation and investor expectations on interest rate levels**
- 2.3.3 Yield curve analysis:** *Financial and economic characteristics of a positive or negative (inverted) sloped yield curve; uses and implications*
- 2.3.4 Yield spread differentials between credit quality groups:** *Impact of economic and financial conditions; during periods of high/low interest rate levels; compression*
- 2.3.5 Changes in commodity and currency prices**

PART 3: SECURITIES LAWS AND REGULATIONS (26% OF TEST QUESTIONS)

3.1 Regulation of Municipal Market Professionals

- 3.1.1** **Securities Act of 1933:** *Municipal securities exempt from registration requirements; Antifraud provisions applicable to municipal issuers as well as brokers and dealers*
- 3.1.2** **Securities Exchange Act of 1934**
 - 3.1.2.1** Municipal securities exempt from registration requirements
 - 3.1.2.2** Antifraud provisions applicable to municipal issuers as well as brokers and dealers
 - 3.1.2.3** Amendments of 1975
 - 3.1.2.3.1** Registration of municipal brokers, dealers and bank dealers with the SEC
 - 3.1.2.3.2** Regulators: *Municipal Securities Rulemaking Board (MSRB); Securities and Exchange Commission (SEC)*
 - 3.1.2.3.3** Enforcement: *Securities and Exchange Commission (SEC); Financial Industry Regulatory Authority (FINRA); Federal Reserve Board; Comptroller of the Currency; Federal Deposit Insurance Corporation*
 - 3.1.2.3.4** Applicable SEC rules: *Securities financial responsibility rules (inapplicable to banks); SEC Rule 15c2-12 on municipal securities disclosure; SEC antifraud rules*

3.2 MSRB Rules

- 3.2.1** Standards of Professional Qualification and Professional Qualification Requirements (MSRB Rules G-2 through G-3)
- 3.2.2** Books and Records to be Made by Brokers, Dealers, Municipal Securities Dealers and Municipal Advisors (MSRB Rule G-8)
- 3.2.3** Preservation of Records (MSRB Rule G-9)
- 3.2.4** Investor and Municipal Advisory Client Education and Protection (MSRB Rule G-10)
- 3.2.5** Primary Offering Practices (MSRB Rule G-11)
- 3.2.6** Uniform Practice (MSRB Rule G-12)
- 3.2.7** Quotations and Sales Reports (MSRB Rules G-13 and G-14)
- 3.2.8** Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers (MSRB Rule G-15)
- 3.2.9** Conduct of Municipal Securities and Municipal Advisory Activities (MSRB Rule G-17)
- 3.2.10** Best Execution (MSRB Rule G-18)
- 3.2.11** Suitability of Recommendations and Transactions (MSRB Rule G-19)
- 3.2.12** Gifts, Gratuities and Non-Cash Compensation (MSRB Rule G-20)

- 3.2.13** Advertising (MSRB Rule G-21)
- 3.2.14** Control Relationships (MSRB Rule G-22)
- 3.2.15** Activities of Financial Advisors (MSRB Rule G-23)
- 3.2.16** Use of Ownership Information Obtained in a Fiduciary Capacity (MSRB Rule G-24)
- 3.2.17** Improper Use of Assets (MSRB Rule G-25)
- 3.2.18** Customer Account Transfers (MSRB Rule G-26)
- 3.2.19** Supervision (MSRB Rule G-27)
- 3.2.20** Transactions with Employees and Partners of Other Municipal Securities Professionals (MSRB Rule G-28)
- 3.2.21** Availability of Board Rules (MSRB Rule G-29)
- 3.2.22** Prices and Commissions (MSRB Rule G-30)
- 3.2.23** Reciprocal Dealings with Municipal Securities Investment Companies (MSRB Rule G-31)
- 3.2.24** Disclosures in Connection with Primary Offerings (MSRB Rule G-32)
- 3.2.25** CUSIP Numbers, New Issue and Market Information Requirements (MSRB Rule G-34)
- 3.2.26** Political Contributions and Prohibitions on Municipal Securities Business (MSRB Rule G-37)
- 3.2.27** Solicitation of Municipal Securities Business (MSRB Rule G-38)
- 3.2.28** Broker's Brokers (MSRB Rule G-43)
- 3.2.29** Time of Trade Disclosure (MSRB Rule G-47)
- 3.2.30** Transactions with Sophisticated Municipal Market Professionals (MSRB Rule G-48)
- 3.2.31** Recently Enacted Rules Relating to the Conduct of Municipal Securities Business

REFERENCES

Listed below are government and self-regulatory organization websites that provide information candidates may find useful in preparing for the exam. In addition to information about rules, the organizations listed may publish glossaries of terms, explanations of products and compliance procedures. Candidates are encouraged to refer to the websites for regulatory notices and interpretive guidance concerning amendments to the rules and announcements of new rules that may relate to the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. The MSRB produces only the content outline and is not involved with, nor does it endorse, any particular course of study.

Board of Governors of the Federal Reserve System (Fed)

<https://www.federalreserve.gov/supervisionreg.htm>

Commodity Futures Trading Commission (CFTC)

<https://cftc.gov/LawRegulation/CommodityExchangeAct/index.htm>

Federal Deposit Insurance Corporation (FDIC)

<https://www.fdic.gov/regulations/>

Financial Industry Regulatory Authority (FINRA)

<http://www.finra.org/industry/rules-and-guidance>

Municipal Securities Rulemaking Board (MSRB)

<http://msrb.org/Rules-and-Interpretations/MSRB-Rules.aspx>

<http://msrb.org/Rules-and-Interpretations/Regulatory-Notices.aspx>

Municipal Securities Rulemaking Board Education on 529 and ABLE Programs

<http://msrb.org/EducationCenter/Municipal-Market/529-Plans.aspx>

Office of the Comptroller of the Currency (OCC)

<https://occ.gov/topics/laws-regulations/index-laws-regulations.html>

Securities and Exchange Commission (SEC)

<https://www.sec.gov/rules.shtml>

Securities Industry / Regulatory Council on Continuing Education (CE Council)

<http://cecouncil.org/>

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 subject coverage of 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. Moral obligation bonds are secured by which of the following?
 - (A) Unlimited taxes levied by the issuer
 - (B) Double-barreled, paid from taxes and revenues
 - (C) Special assessments and general revenues
 - (D) Non-binding pledge from a governmental body

2. The Federal Reserve Board can ease credit by doing which of the following?
 - I. Buying government securities
 - II. Increasing the discount rate
 - III. Decreasing the money supply
 - IV. Lowering the reserve requirement of member banks
 - (A) I and II
 - (B) I and IV
 - (C) II and III
 - (D) III and IV

3. The Securities Investor Protection Corporation (SIPC) protects investors against losses from financial failure of all of the following sellers of municipal bonds EXCEPT:
 - (A) Firms dealing only in municipal bonds.
 - (B) SEC-regulated dealers.
 - (C) Municipal issuers.
 - (D) FINRA member firms.

4. For federal tax purposes, the formula for computing taxable-equivalent yields for municipal securities is the tax-exempt yield divided by:
 - (A) The income tax rate.
 - (B) The dollar price.
 - (C) 100% minus the applicable income tax rate.
 - (D) 100% plus the applicable income tax rate.

5. A municipal securities representative would like to entertain a municipal issuer. Under MSRB rules, what type of entertainment is allowed?
 - (A) Two season tickets to football games played by a professional football team
 - (B) Two tickets to a local college basketball game
 - (C) Dinner each week at a local country club
 - (D) Annual use of a vacation home owned by the representative

ANSWERS: 1. (D) 2. (B) 3. (C) 4. (C) 5. (B)