
Municipal Advisor Principal Qualification Examination (Series 54)

CONTENT OUTLINE



Municipal Securities Rulemaking Board

Municipal Advisor Principal Qualification Examination (Series 54)

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Introduction

This content outline is intended to help candidates prepare for the Municipal Advisor Principal Qualification Examination (Series 54). This examination is developed and maintained by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization (SRO) that establishes rules for municipal securities dealers and municipal advisors. The outline provides relevant information about the examination itself, as well as pertinent information about the content areas that are covered in the examination. The sample questions in this outline are similar to the types of multiple-choice questions that will appear in the examination. In addition, government and SRO websites that may be useful in preparing for the examination are provided at the end of the outline.

The questions used in the Series 54 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.

PURPOSE FOR AND DEVELOPMENT OF THE EXAMINATION

The Securities Exchange Act of 1934 requires the MSRB to develop a regulatory framework for municipal advisors, including establishing professional standards of conduct. The Series 54 examination for municipal advisor principals was developed as a part of the fulfillment of that mandate. A municipal advisor principal is a natural person associated with a municipal advisor firm who is qualified as a municipal advisor representative and is directly engaged in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons.

The content areas covered by the examination were determined by a panel of practicing municipal advisor professionals who represented various types of municipal advisors that were nationally diverse. The examination is intended to measure the degree to which candidates have demonstrated knowledge and skills necessary to perform the responsibilities of a municipal advisor principal.

STRUCTURE OF THE EXAMINATION

The Series 54 examination consists of 100 multiple choice questions that are organized under the following major functions:

Function	Description	Number of Questions
Function 1:	Understanding the Municipal Advisor Regulatory Framework	25
Function 2:	Supervising Municipal Advisory Activities	35
Function 3:	Supervising Municipal Advisor Firm Operations	40

Each candidate receives a unique sample of 100 questions that are drawn from the collection of test questions available for the examination, subject to two constraints—the content covered by the examination and the overall difficulty of the examination is the same for all candidates.

ADMINISTRATION OF THE EXAMINATION

Consistent with the administration of other securities industry examinations, this 100-question examination is administered at a computer. The examination also includes 10 additional questions, which serve to pretest items to ensure that they meet acceptable measurement standards prior to use in future administrations of the Series 54 examination. These 10 pretest items are randomly distributed throughout the examination and do not count for scoring purposes. Candidates receive a 30-minute tutorial providing details of the examination administration prior to initiating the test. Once a candidate has completed the tutorial, a candidate is allowed three hours to complete the Series 54 examination.

A candidate must select one of the four answer choices that are presented for each question in order to complete the examination. Candidates should remember these relevant points about the examination:

- The exam consists of a total of 110 items (100 scored and 10 unscored);
- Each correct answer of a scored item is worth one point;
- It is to the candidate's advantage to answer each question, even if the candidate is uncertain of the correct response;
- Candidates are given three hours to complete the examination; and
- Any materials needed to complete the examination will be provided by the test center or within the test itself.

A candidate's score will be equal to the number of questions answered correctly. To establish the passing score for the examination, the MSRB administered a pilot exam based on the content of the final outline. Following a well-established practice known as standard setting, a committee of industry professionals working as municipal advisor principals evaluated the results of the pilot, assessing factors such as content difficulty and industry trends. The passing score set by the MSRB for the Series 54 examination is 70%.

CONFIDENTIALITY

In order to ensure MSRB 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.¹

¹ 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: Understanding the Municipal Advisor Regulatory Framework (25% of Exam Questions)

TASKS

- Assess application of U.S. Securities and Exchange Commission (SEC) and MSRB rules to firm activities
- Monitor for specified prohibitions related to principal transactions and affiliate transactions
- Assess activities to determine the distinction between municipal advisory activities and non-municipal advisory activities
- Assess rules that apply to municipal advisors in dealing with and interacting with dealers, counterparties and other market participants
- Monitor for changes to the applicable regulatory framework

KNOWLEDGE REQUIRED

- A. A. Regulation of Municipal Securities
 1. Dodd-Frank Wall Street Reform and Consumer Protection Act (Section 975 of Title IX)
 2. SEC Municipal Advisor Registration Rule (Section 15B of the Exchange Act)
 - a. Municipal advice standard resulting in a municipal advisor recommendation (SEC Rule 15Ba1-1(d)(1)(ii) and MSRB Rule G-42(d))
 - b. Municipal advisor registration statutory exclusions:
 - (1) Underwriter engagement exclusion (Section 15Ba1-1(d)(2)(i))
 - (2) Responses to requests for proposals or qualifications (RFP or RFQ) (Section 15Ba1-1(d)(3)(iv))
 - (3) Independent registered municipal advisor (IRMA) exemption (Section 15Ba1-1(d)(3)(vi))
 - (a) Establishing a valid IRMA exemption
 - (b) Potential conflicts as they relate to the firm and individual
 - c. Activities within the scope and outside the scope of serving as an underwriter (SEC Rule 15Ba1-1(d)(2))
 - d. The difference between municipal entity and obligated person clients and applicable regulatory standards (Section 15B(e)(8); Section 15B(e)(10))
 - e. The definition of solicitation and relationship between third-party solicitors and non-solicitors (Section 15B(e)(4)(A); Section 15B(e)(9))

3. SEC Statutory Fiduciary Duty Standard and Anti-Fraud Rule (Section 15B(c)(1))
 4. Fair Dealing Rule (MSRB Rule G-17)
- B. Regulatory Jurisdiction and Scope of Authority (SEC, MSRB, FINRA, CFTC and bank regulators)
1. Responsibilities of the regulatory agencies that oversee municipal advisory business (e.g., rulemaking, examination, and enforcement)
 2. Role of the Qualified Independent Representative (QIR) (Section 4s(h) of the Commodity Exchange Act (CEA))

Part 2: Supervising Municipal Advisory Activities (35% of Exam Questions)

TASKS

- Establishing written supervisory procedures (WSPs) for municipal advisory activities
- Monitoring business activities to establish compliance with written supervisory policies and procedures
- Monitoring for specified prohibitions related to municipal advisory activities (e.g., political contributions, principal transactions and use of bond proceeds)
- Determining and disclosure of potential conflicts of interest (e.g., prior dealer affiliation, current affiliation with issuers, other roles with or services for clients, ownership of issuer securities and relationships with other entities in similar industries)
- Supervising the client engagement process (e.g., proper documentation and disclosure of conflicts of interest and legal and disciplinary events, compensation arrangements, scope of service and know your client)
- Mitigating the providing of inadvertent advice
- Reviewing and documenting a recommendation given by a municipal advisor for suitability and compliance with all applicable rules
- Fulfilling fiduciary duty obligations when reviewing recommendations to municipal entity clients and execution of transactions
- Supervising firm's due diligence process for issuer primary offering documents and continuing disclosures
- Assessing and determining the appropriate knowledge and expertise required of municipal advisors (*i.e.*, duty of care to municipal entity and obligated person clients)
- Maintaining policies and procedures to support firm and regulatory requirements for products recommended and services provided (*i.e.*, securities, non-securities, private placements and bank loans)

KNOWLEDGE REQUIRED

- A. Activity Related to Associated Persons Engaged in Municipal Advisory Activities
1. Duty owed (*i.e.*, standards of conduct) for the relationship with municipal entities and obligated person clients (Section 15B(c)(1); MSRB Rule G-42(a)(i)-(ii); Supp. Material .01 and .02)
 2. Scope of municipal advisory relationship and limitations on the scope of the engagement (MSRB Rule G-42(c); Supp. Material .04 and .06)
 3. Suitability and "know your client" requirements in managing municipal advisory activities (MSRB Rule G-42(d); Supp. Material .09 and .10; MSRB Rule G-8(h)(iv) and MSRB Rule G-17)

4. Recommendations and Review of Recommendations of Other Parties (MSRB Rule G-42(d) and Supp. Material .01, .09 and .10)
5. Issuer disclosures: initial offering, and continuing disclosures and available exemptions (SEC Rule 15c2-12 and G-42 Supp. Material .01)
6. Prohibition on engaging in underwriting activities (MSRB Rule G-23(d))
7. Prohibitions on principal transactions and exceptions thereto (MSRB Rule G-42(e)(ii); Supp. Material .13 and .14)
8. Disclosure of Conflicts of Interest and Other Information (MSRB Rule G-42(b))
9. Provision on the process to cure inadvertent advice (MSRB Rule G-42 Supp. Material .07)
10. Other Duties of Municipal Advisors

Part 3: Supervising Municipal Advisor Firm Operations (40% of exam questions)

TASKS

- Fulfilling requirements to register the municipal advisor with the SEC, MSRB and states
- Educating associated persons and other employees on the application of rules to municipal advisory business (e.g., continuing education)
- Fulfilling obligations to identify and provide information regarding each associated person of the municipal advisor engaged in municipal advisory activities
- Fulfilling requirements for maintaining registration (e.g., fees)
- Submitting updates to registration information and annual affirmation to regulatory authorities
- Ensuring municipal advisor professionals are properly qualified to engage in municipal advisory services, including proper registrations and licenses
- Maintaining general business records and other records in compliance with SEC and MSRB rules
- Implementing policies to document client complaints
- Overseeing quarterly submission of political contributions and other information
- Monitoring for adherence with MSRB rule on gifts, gratuities and entertainment
- Reviewing municipal advisor advertisements for compliance with applicable rules
- Ensuring firm activities comply with fair dealing obligations
- Surveilling for political contributions that may trigger a ban on municipal advisory business and required filings

KNOWLEDGE REQUIRED

A. Firm Activity

1. Books and records to be made and maintained (SEC Rule 15Ba1-8; MSRB Rule G-8(h) and MSRB Rule G-9(h)-(k))
2. Annual updates, withdrawals and registration fee (MSRB Rule A-12(a)-(d) and (j)-(l))
3. Firm filings and updating of designated contacts for the firm (MSRB Rule A-12)
4. Initial filing and amendments to SEC Form MA (SEC Rule 15Ba1-2 and SEC Rule 15Ba1-5)
5. Fair dealing requirement (MSRB Rule G-17)
6. Notification regarding the municipal advisory client brochure (MSRB Rule G-10)
7. Gifts, gratuities and normal business dealings compliance obligations (MSRB Rule G-20)

8. Activities triggering a ban on municipal advisory business, exemptions and required filings (MSRB Rule G-37(b)(i)(A)-(D) and (e))
 9. Supervisory and compliance obligations of municipal advisors (MSRB Rule G-44)
 10. Advertising and content standards (MSRB Rule G-40)
- B. Registration and Professional Qualification Standards
1. Amendments to SEC Form MA-I (SEC Rule 15Ba1-5)
 2. Professional fee (MSRB Rule A-11)
 3. Qualification examination fees (MSRB Rule A-16)
 4. Defined terms: associated persons, municipal advisory activities and appropriate regulatory agency (MSRB Rules D-11, D-13, and D-14)
 5. Standards of Professional Qualifications (MSRB Rule G-2)
 6. Qualification requirements and continuing education requirements (MSRB Rule G-3(d)-(e) and (i)(ii))

References

Listed below are government and SRO websites that provide information that candidates may find useful in preparing for the Series 54 examination. On the MSRB and SEC websites, candidates will find information about applicable rules, as well as regulatory notices and interpretive guidance concerning amendments to the rules and announcements of new rules that may relate to the examination. The other organizations listed may publish glossaries of terms, explanations of products and other resources on their websites. It is recommended that candidates refer to the content outline as part of their preparation for the exam. Candidates are responsible for planning their course of study in preparation for the exam—the MSRB produces the content outline but is not involved with, nor endorses, any particular test services vendor or course of study.

Municipal Securities Rulemaking Board (MSRB)

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

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

MSRB Municipal Market Education for Professionals (MuniEdPro®)

<http://msrb.org/Regulated-Entities/MuniEdPro.aspx>

U.S. Securities and Exchange Commission (SEC)

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

U.S. Securities and Exchange Commission (SEC) – Office of Municipal Securities

<https://www.sec.gov/municipal>

<https://www.sec.gov/info/municipal/mun-advisors-faqs.shtml>

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

<http://cecouncil.org/>

Board of Governors of the Federal Reserve System (Fed)

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

Federal Deposit Insurance Corporation (FDIC)

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

Financial Industry Regulatory Authority (FINRA)

<http://www.finra.org/industry/guidance>

Office of the Comptroller of the Currency (OCC)

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

U.S. Commodity Futures Trading Commission (CFTC)

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

Sample Questions

1. Under MSRB rules, a municipal advisor principal reviewing written conflicts of interest disclosures must assess whether the:
 - (A) Municipal advisor has provided the municipal entity a copy of its MSRB Form A-12
 - (B) Written disclosures were made prior to or upon engaging in municipal advisory activities
 - (C) Municipal advisor has provided the municipal entity an inventoried list of the requisite knowledge and experience to fulfill the duty of care
 - (D) Written disclosures were acknowledged in writing by the municipal entity

2. A municipal advisor representative plans on distributing a letter to 50 existing clients promoting the services of the municipal advisor firm and the representative asks the municipal advisor principal if the letter requires approval prior to distribution. What should the municipal advisor principal tell the representative regarding the letter?
 - (A) If the letter is to be sent to only existing clients, no approval is necessary
 - (B) Approval is required prior to sending because the letter is promotional in nature and being broadly distributed
 - (C) If there is no call to action in the letter, no approval is necessary
 - (D) Approval is required, but only after the letter is sent to clients

3. A municipal advisor principal reviewing the firm's registration on MSRB Form A-12 must consider all of the following **except**:
 - (A) Whether the firm has advised both municipal entities and obligated persons in the last year
 - (B) Whether there has been a change in the firm's designated contacts
 - (C) Whether the firm also engages in underwriting activities
 - (D) Whether the firm engages in solicitation on behalf of a non-affiliated municipal advisor

4. A municipal advisor principal is advising her municipal advisor representatives on requirements under the MSRB rule relating to gifts and gratuities, non-cash compensation and expenses of issuance. Which of the following statements would be accurate under the MSRB rule?
 - I. Entertainment expenses can be included as reimbursable expenses from the bond proceeds
 - II. Reasonable and customary bereavement gifts are excluded from calculations when determining the aggregate amount of gifts given to a particular client
 - III. When determining the value of the gift, the tax and delivery charges must be included
 - IV. For the purposes of determining the value of an event ticket, the higher of the face value or purchase price should be used
 - (A) I and III
 - (B) I and IV
 - (C) II and III
 - (D) II and IV

5. Under MSRB rules on supervision of municipal advisory activities, which two of the following actions is a municipal advisor firm required to take?
- I. Designate a chief compliance officer
 - II. Provide a quarterly disclosure with respect to any inadvertent advice
 - III. Adopt a written code of ethics
 - IV. Review the firm's supervisory policies annually
- (A) I and III
 - (B) I and IV
 - (C) II and III
 - (D) II and IV

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