

## Qualifications Examinations

### FINRA Revises the Series 4 Examination Program

Implementation Date: September 28, 2015

#### Executive Summary

FINRA periodically reviews the content of qualification examinations to determine whether revisions are necessary or appropriate in view of changes—including changes to the laws, rules and regulations—pertaining to the subject matter the examinations cover. Based on this review process, FINRA has revised the Registered Options Principal (Series 4) examination program.<sup>1</sup>

The changes are reflected in the Series 4 content outline on FINRA's website and will appear in Series 4 examinations administered on or after September 28, 2015.

Questions regarding this *Notice* should be directed to:

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#### Background

Section 15A(g)(3) of the Securities Exchange Act of 1934 (SEA) authorizes FINRA to prescribe standards of training, experience and competence for persons associated with FINRA-regulated firms. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA-regulated firms have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules.

#### August 2015

##### Notice Type

- ▶ Guidance

##### Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Registration
- ▶ Training

##### Key Topics

- ▶ Qualification Examinations
- ▶ Registered Options Principal
- ▶ Series 4

##### Referenced Rules & Notices

- ▶ FINRA Rule 2111
- ▶ FINRA Rule 2220
- ▶ FINRA Rule 2711
- ▶ FINRA Rule 3110
- ▶ FINRA Rule 3230
- ▶ FINRA Rule 4510
- ▶ NASD Rule 1022(f)
- ▶ NASD Rule 1030 Series
- ▶ NASD Rule 2212
- ▶ NASD Rule 2310
- ▶ NASD Rule 3110
- ▶ Rule 135 under the Securities Act of 1933
- ▶ SEA Section 15A(g)(3)

NASD Rule 1022(f) requires firms that engage in, or that intend to engage in transactions in options with the public to have at least one Registered Options Principal. Further, every person engaged in the supervision of options sales practices with the public, including a person designated pursuant to FINRA Rule 3110(a)(2) must be registered as a Registered Options Principal.<sup>2</sup> A person registered solely as a Registered Options Principal is not qualified to function in a principal<sup>3</sup> capacity with responsibility over any area of business activity that is not stated above.

A Registered Options Principal must, prior to or concurrent with such registration, be or become qualified pursuant to the NASD Rule 1030 Series, as either a General Securities Representative (Series 7)<sup>4</sup> or a Corporate Securities Representative (Series 62) and an Options Representative (Series 42).

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 4 examination program. As a result of this review, FINRA has revised the content outline to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by a Registered Options Principal. FINRA also has revised the format of the content outline.

## Revisions

FINRA has divided the content outline into the following six major job functions that are performed by a Registered Options Principal and included specific tasks for each function:

- ▶ Function 1: Supervise the Opening of New Options Accounts;
- ▶ Function 2: Supervise Options Account Activities;
- ▶ Function 3: Supervise General Options Trading;
- ▶ Function 4: Supervise Options Communications;
- ▶ Function 5: Implement Practices and Adhere to Regulatory Requirements; and
- ▶ Function 6: Supervise Associated Persons and Personnel Management Activities.

FINRA also adjusted the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a Registered Options Principal. The questions on the revised Series 4 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance. The following are the number of questions assigned to each of the functions on the Series 4.

- ▶ Function 1: 21 questions;
- ▶ Function 2: 25 questions;
- ▶ Function 3: 30 questions;

- ▶ Function 4: 9 questions;
- ▶ Function 5: 12 questions; and
- ▶ Function 6: 28 questions.

Each function also includes specific tasks describing activities associated with performing that function. There are four tasks (1.1 – 1.4) associated with Function 1; four tasks (2.1 – 2.4) associated with Function 2; four tasks (3.1 – 3.4) associated with Function 3; four tasks (4.1 – 4.4) associated with Function 4; two tasks (5.1 – 5.2) associated with Function 5; and four tasks (6.1 – 6.4) associated with Function 6.<sup>5</sup> For example, one such task (Task 4.2) is to review options retail communications and determine appropriate approval.<sup>6</sup> Further, the content outline lists the knowledge required to perform each function and associated tasks (*e.g.*, types of retail communications, required approvals).<sup>7</sup> In addition, where applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (*e.g.*, FINRA Rule 2220), NASD Rules (*e.g.*, NASD Rule 2711(i)) and SEC rules (*e.g.*, Rule 135a under the Securities Act of 1933).<sup>8</sup>

FINRA conducted a job analysis study of Registered Options Principals, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised content outline. The functions and associated tasks, which appear in the revised content outline for the first time, reflect the day-to-day activities of a Registered Options Principal. FINRA also has revised the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, FINRA has revised the content outline to reflect the adoption of rules in the consolidated FINRA rulebook (*e.g.*, NASD Rule 2310 (Recommendations to Customers (Suitability)), NASD Rule 2212 (Telemarketing) and NASD Rule 3110 (Books and Records) were adopted as FINRA Rule 2111 (Suitability), FINRA Rule 3230 (Telemarketing) and FINRA Rule 4510 Series (Books and Records Requirements), respectively).<sup>9</sup>

In conjunction with the changes to the content outline, FINRA has made changes to the weighting of questions on the topics on the content outline and to the question bank for the Series 4 examination.

Finally, FINRA has revised the format of the content outline, including the preface, sample questions and reference materials.

The number of questions on the Series 4 examination will remain at 125 multiple-choice questions,<sup>10</sup> and candidates have 195 minutes to complete the examination. The passing score will change to 72 percent with the revised Series 4 examination program (the current passing score is 70 percent).

## Availability of Content Outline

The revised Series 4 content outline is available on FINRA's [website](#).

## Endnotes

1. See Securities Exchange Act Release No. 75246 (June 18, 2015), 80 FR 36388 (June 24, 2015) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2015-018).
2. NASD Rule 1022(f) also includes additional requirements applicable to Registered Options Principals engaged in securities futures activities. The rule generally provides that prior to the introduction of an appropriate qualification examination that addresses security futures products, a Registered Options Principal is required to complete a firm-element continuing education program that addresses security futures products and a principal's responsibilities for security futures before such person can supervise security futures activities.
3. The term principal is defined in NASD Rule 1021(b) (Definition of a Principal).
4. Registration as a United Kingdom Securities Representative or Canada Securities Representative is an acceptable alternative prerequisite to the General Securities Representative prerequisite.
5. See Series 4 Outline Pages 6 - 22.
6. See Series 4 Outline Page 15.
7. See Series 4 Outline Page 15.
8. See Series 4 Outline Page 15.
9. See Rule Conversion Chart, available at <http://www.finra.org/industry/finra-rule-consolidation>.
10. Consistent with FINRA's practice of including "pretest" items on certain qualification examinations, which is designed to ensure that new examination items meet acceptable testing standards prior to use for scoring purposes, the examination includes 10 additional, unidentified pretest items that do not contribute towards the candidate's score. Therefore, the examination actually consists of 135 items, 125 of which are scored. The 10 pretest items are randomly distributed throughout the examination.

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