

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72765; File No. SR-FINRA-2014-034)

August 5, 2014

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Series 23 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 29, 2014, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as “constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule” under Section 19(b)(3)(A)(i) of the Act³ and Rule 19b-4(f)(1) thereunder,⁴ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is filing revisions to the content outline and selection specifications for the General Securities Principal Sales Supervisor Module (Series 23) examination program.⁵ The

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

⁵ FINRA also is proposing corresponding revisions to the Series 23 question bank. Based on instruction from SEC staff, FINRA is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for review. See Letter to Alden S. Adkins, Senior Vice

proposed revisions update the material 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 General Securities Principal. In addition, FINRA is proposing to make changes to the format of the content outline. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

The revised content outline is attached. The Series 23 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.⁶

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for SEC review.

⁶ 17 CFR 240.24b-2. The Commission notes that the content outline is an exhibit to the filing, not to this Notice.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Section 15A(g)(3) of the Act⁷ authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. FINRA periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

NASD Rule 1022(a) (General Securities Principal) sets forth the registration requirements for a General Securities Principal.⁸ Among other requirements, a person registering as a General Securities Principal must pass the General Securities Principal (Series 24) qualification examination or an alternative examination. The Series 23 examination, in combination with the General Securities Sales Supervisor (Series 9/10) examination,⁹ is an acceptable qualification alternative to the Series 24 examination for associated persons who are required to register and qualify as General Securities Principals with FINRA. The Series 23 examination tests material from the Series 24 examination not otherwise tested on the Series 9/10 examination.

⁷ 15 U.S.C. 78o-3(g)(3).

⁸ See SR-FINRA-2014-035 (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Series 24 Examination Program) for a discussion of the requirements for a General Securities Principal.

⁹ As a prerequisite to the Series 23 examination, FINRA also recognizes the Series 8 examination, the historical equivalent to the Series 9/10 examination, and the former Series 12 examination, a subset of the Series 9/10 examination omitting questions on options and municipal securities.

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 23 examination program. As a result of this review, FINRA is proposing to make revisions to 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 General Securities Principal. FINRA also is proposing to make changes to the format of the content outline.

Current Outline

The current content outline is divided into five sections. The following are the five sections and the number of questions associated with each of the sections, denoted Section 1 through Section 5:

1. Supervision of Investment Banking, Underwriting Activities and Research, 30 questions;
2. Supervision of Trading and Market Making Activities, 24 questions;
3. Supervision of Brokerage Office Operations, 12 questions;
4. Sales Supervision and General Supervision of Employees, 23 questions; and
5. Compliance with Financial Responsibility Rules, 11 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference materials.

Proposed Revisions

FINRA is proposing to divide the content outline into five major job functions that are performed by a General Securities Principal. The following are the five major job functions, denoted Function 1 through Function 5, with the associated number of questions:

Function 1: Supervision of Registration of the Broker-Dealer and Personnel Management Activities, 6 questions;

Function 2: Supervision of General Broker-Dealer Activities, 26 questions;

Function 3: Supervision of Retail and Institutional Customer-Related Activities, 12 questions;

Function 4: Supervision of Trading and Market Making Activities, 28 questions; and

Function 5: Supervision of Investment Banking and Research, 28 questions.

FINRA is also proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a General Securities Principal. The questions on the revised Series 23 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

Each function also includes specific tasks describing activities associated with performing that function. There are two tasks (1.1 – 1.2) associated with Function 1; seven tasks (2.1 – 2.7) associated with Function 2; three tasks (3.1 – 3.3) associated with Function 3; three tasks (4.1 – 4.3) associated with Function 4; and three tasks (5.1 – 5.3) associated with Function 5.¹⁰ By way of example, one such task (Task 2.1) is to develop, implement and update firm's policies, written supervisory procedures (WSP) and controls for applicable rules and regulations;

¹⁰ See Exhibit 3a, Outline Pages 6-29. The Commission notes that Exhibit 3a is an exhibit to the filing, not to this Notice.

and implement appropriate monitoring and testing.¹¹ Further, the outline lists the knowledge required to perform each function and associated tasks (e.g., business and regulatory requirements for firm's systems and technologies).¹² In addition, where applicable, the 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 2090), NASD Rules (e.g., NASD Rule 2510) and SEC rules (e.g., SEA Rule 15c1-7).¹³ FINRA conducted a job analysis study of General Securities 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 outline. The functions and associated tasks, which appear in the revised outline for the first time, reflect the day-to-day activities of a General Securities Principal.

As noted above, FINRA also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, FINRA is proposing to revise 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)).¹⁴

FINRA is proposing similar changes to the Series 23 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline,

¹¹ See Exhibit 3a, Outline Page 9.

¹² See Exhibit 3a, Outline Page 9.

¹³ See Exhibit 3a, Outline Page 19.

¹⁴ See Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

including the preface, sample questions and reference materials. Among other changes, FINRA is proposing to: (1) add a table of contents;¹⁵ (2) provide more details regarding the purpose of the examination;¹⁶ (3) provide more details on the application procedures;¹⁷ (4) provide more details on the development and maintenance of the content outline and examination;¹⁸ (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure and that the scores are an absolute standard independent of the performance of candidates taking the examination;¹⁹ and (6) note that each candidate will receive a score report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.²⁰

The number of questions on the Series 23 examination will remain at 100 multiple-choice questions, and candidates will continue to have 2 hours and 30 minutes to complete the examination. Currently, a score of 70 percent is required to pass the examination. The passing score will remain the same.

Availability of Content Outlines

The current Series 23 content outline is available on FINRA's website, at www.finra.org/brokerqualifications/exams. The revised Series 23 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes

¹⁵ See Exhibit 3a, Outline Page 2.

¹⁶ See Exhibit 3a, Outline Page 3.

¹⁷ See Exhibit 3a, Outline Page 3.

¹⁸ See Exhibit 3a, Outline Page 4.

¹⁹ See Exhibit 3a, Outline Page 5.

²⁰ See Exhibit 3a, Outline Page 5.

to implement the revised Series 23 examination program on October 13, 2014. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

2. Statutory Basis

FINRA believes that the proposed revisions to the Series 23 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,²¹ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Act,²² which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the examination program 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 General Securities Principal.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by a General Securities Principal and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would make the examination more efficient and effective.

²¹ 15 U.S.C. 78o-3(b)(6).

²² 15 U.S.C. 78o-3(g)(3).

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act²³ and paragraph (f)(1) of Rule 19b-4 thereunder.²⁴ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2014-034 on the subject line.

Paper Comments:

²³ 15 U.S.C. 78s(b)(3)(A).

²⁴ 17 CFR 240.19b-4(f)(1).

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2014-034. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information

that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2014-034 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁵

Kevin M. O'Neill
Deputy Secretary

²⁵ 17 CFR 200.30-3(a)(12).