

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75246; File No. SR-FINRA-2015-018)

June 18, 2015

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Series 4 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 June 12, 2015, 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 the Substance of the Proposed Rule Change

FINRA is filing revisions to the content outline and selection specifications for the Registered Options Principal (Series 4) examination program.⁵ The proposed revisions update

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 4 question bank. Based on instruction from SEC staff, FINRA is submitting this filing for immediate

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 Registered Options 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.⁶ The Series 4 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.⁷

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.

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 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 The Commission notes that the revised content outline is attached to the filing, not to this Notice. The content outline is available as part of the filing on FINRA's website.

⁷ 17 CFR 240.24b-2.

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 Act⁸ 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(f) requires members 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.⁹ A person registered solely as a Registered Options Principal is not qualified to function in a principal¹⁰ capacity with responsibility over any area of business activity that is not stated above.

⁸ 15 U.S.C. 78o-3(g)(3).

⁹ 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.

¹⁰ The term principal is defined in NASD Rule 1021(b) (Definition of a Principal).

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)¹¹ 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 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 Registered Options Principal. FINRA also is proposing to make changes to the format of the content outline.

Current Content Outline

The current content outline is divided into three sections. The following are the three sections and the number of questions associated with each of the sections, denoted Section 1 through Section 3:

1. Options Investment Strategies, 34 questions;
2. Supervision of Sales Activities and Trading Practices, 75 questions; and
3. Supervision of Employees, Business Conduct, and Recordkeeping and Reporting Requirements, 16 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current content outline also includes a preface (addressing, among other things, the

¹¹ Registration as a United Kingdom Securities Representative or Canada Securities Representative is an acceptable alternative prerequisite to the General Securities Representative prerequisite.

purpose, administration and scoring of the examination), sample questions and reference materials.

Proposed Revisions

FINRA is proposing to divide the content outline into six major job functions that are performed by a Registered Options Principal. The following are the six major job functions, denoted Function 1 through Function 6, with the associated number of questions:

Function 1: Supervise the Opening of New Options Accounts, 21 questions;

Function 2: Supervise Options Account Activities, 25 questions;

Function 3: Supervise General Options Trading, 30 questions;

Function 4: Supervise Options Communications, 9 questions;

Function 5: Implement Practices and Adhere to Regulatory Requirements, 12 questions;

and

Function 6: Supervise Associated Persons and Personnel Management Activities, 28 questions.

FINRA is 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 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.

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 6.¹² By way of example, one such task (Task 4.2) is review options retail communications and determine appropriate approval.¹³ Further, the content outline lists the knowledge required to perform each function and associated tasks (e.g., types of retail communications, required approvals).¹⁴ 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).¹⁵ 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.

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

¹² See Exhibit 3a, Outline Pages 6 - 22. See footnote 6 regarding availability of the content outline.

¹³ See Exhibit 3a, Outline Page 15.

¹⁴ See Exhibit 3a, Outline Page 15.

¹⁵ See Exhibit 3a, Outline Page 15.

2111 (Suitability), FINRA Rule 3230 (Telemarketing) and FINRA Rule 4510 Series (Books and Records Requirements), respectively).¹⁶

FINRA is proposing similar changes to the Series 4 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes, FINRA is proposing to: (1) add a table of contents;¹⁷ (2) provide more details regarding the purpose of the examination;¹⁸ (3) provide more details on the application procedures;¹⁹ (4) provide more details on the development and maintenance of the content outline and examination;²⁰ (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 a statistical adjustment process known as equating is used in scoring exams;²¹ 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.²²

The number of questions on the Series 4 examination will remain at 125 multiple-choice

¹⁶ See Rule Conversion Chart, available at <http://www.finra.org/industry/finra-rule-consolidation>.

¹⁷ See Exhibit 3a, Outline Page 2.

¹⁸ See Exhibit 3a, Outline Page 3.

¹⁹ See Exhibit 3a, Outline Page 3.

²⁰ See Exhibit 3a, Outline Page 4.

²¹ See Exhibit 3a, Outline Page 5.

²² See Exhibit 3a, Outline Page 5.

questions,²³ and candidates will have 195 minutes to complete the examination. The test time will change from 180 minutes to 195 minutes because pretest items increased from 5 items to 10 items. Currently, a score of 70 percent is required to pass the examination. The passing score will change to 72 percent with the revised Series 4 examination program.

Availability of Content Outline

The current Series 4 content outline is available on FINRA's website, at www.finra.org/brokerqualifications/exams. The revised Series 4 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 4 examination program on September 28, 2015. 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 4 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,²⁴ 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,²⁵ which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

²³ 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.

²⁴ 15 U.S.C. 78o-3(b)(6).

²⁵ 15 U.S.C. 78o-3(g)(3).

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 Registered Options 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 Registered Options 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.

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 Act²⁶ and paragraph (f)(1) of Rule 19b-4 thereunder.²⁷ 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.

²⁶ 15 U.S.C. 78s(b)(3)(A).

²⁷ 17 CFR 240.19b-4(f)(1).

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-2015-018 on the subject line.

Paper comments:

- 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-2015-018. 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 offices 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-2015-018, 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.²⁸

Brent J. Fields
Secretary

²⁸ 17 CFR 200.30-3(a)(12).