

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70268; File No. SR-FINRA-2013-032)

August 27, 2013

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Series 16 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 August 20, 2013, 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 Supervisory Analyst (Series 16) examination program.⁵ The proposed revisions update 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 16 question bank. Based on instructions 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

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 Supervisory Analyst. 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 16 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.

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

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 as Exhibit 3a, not to this Notice

⁷ 17 CFR 240.24b-2.

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.

Incorporated NYSE Rules 344, 344.11 and 472(a)(2)⁹ and NYSE Rule Interpretations 344/03 and /04 require an individual who is responsible for approving research reports at a Dual Member to be registered and qualified as a Supervisory Analyst.¹⁰ Such person is required to

⁸ 15 U.S.C. 78o-3(g)(3).

⁹ The current FINRA rulebook consists of (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE (“Incorporated NYSE Rules”) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the “Transitional Rulebook”). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (“Dual Members”). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process). For convenience, the Incorporated NYSE Rules are hereinafter referred to as the NYSE Rules.

¹⁰ In addition, pursuant to FINRA Rules and NASD Rules, a Supervisory Analyst may approve: (1) research reports on debt and equity securities; (2) retail communications that are excepted from the definition of “research report” under NASD Rule 2711(a)(9)(A); (3) other research that does not meet that definition of “research report” under NASD Rule 2711(a)(9), provided that the Supervisory Analyst has technical expertise in the particular product area and any other required registrations; (4) third-party research reports; and (5) globally branded research reports prepared by foreign research analysts, as a condition for an exemption from the research analyst registration requirements. See NASD Rule 1050(f)(3)(A); FINRA Rule 2210(b)(1)(B) and NASD Rule 2711(h)(13)(C). Accordingly, in addition to testing knowledge of applicable NYSE Rules, the Series 16 examination program tests knowledge of applicable FINRA Rules and NASD Rules.

present evidence of appropriate experience (which is having at least three years prior experience within the immediately preceding six years involving securities or financial analysis) and pass the Supervisory Analyst (Series 16) qualification examination. Rather than passing the entire Supervisory Analyst qualification examination, such person may obtain a waiver from Part II of the Supervisory Analyst qualification examination upon verification that the person has passed Level I of the Chartered Financial Analyst (“CFA”) examination. NYSE Rule 472(a)(2) further provides that where a Supervisory Analyst lacks technical expertise in a particular product area that is the subject of a research report, the content in the report may be co-approved by a product specialist; if no such expertise resides within the member, the rule requires the member to arrange approval by a qualified outside Supervisory Analyst.

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 16 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 Supervisory Analyst. FINRA also is proposing to make changes to the format of the content outline.

Current Outline

The current content outline is divided into two critical parts, each of which has 50 questions:

Part I: Regulatory Administration; and

Part II: Securities Analysis.

Part I includes the respective applicable laws, rules and regulations, and Part II includes technical and analytical knowledge. The current outline also includes a preface (addressing,

among other things, the purpose, administration and scoring of the examination), sample questions and reference material.

Proposed Revisions

FINRA is proposing to rename Part I and Part II of the outline and include two major job functions under each part. The following are the renamed parts and major job functions, with the associated number of questions:

Part I. Regulations:

Function 1: Review and approve research analysts' communications to ensure compliance with applicable SEC and FINRA rules and regulations, and firm policies and procedures (34 questions); and

Function 2: Serve as liaison between the Research Department and other internal and external parties (16 questions).

Part II. Valuation of Securities:

Function 1: Review the content of the report to assess the accuracy, consistency and sources of data and calculations included in the report (16 questions); and

Function 2: Review the content of the report to ensure a reasonable basis exists for the analyst's conclusions (e.g., price targets, recommendations, ratings, estimates, and valuation parameters) (34 questions).

Each function also includes specific tasks describing activities associated with performing that function. There are five tasks (T1 through T5) associated with Part I, Function 1; four tasks (T6 through T9) associated with Part I, Function 2; three tasks (T1 through T3) associated with Part II, Function 1; and six tasks (T4 through T9) associated with Part II, Function 2.¹¹ By way of example, one such task (T5, Part I, Function 1) is to verify that a research report includes all applicable required disclosures.¹² In addition, the outline lists with

¹¹ See Exhibit 3a, Outline Pages 7 and 10.

¹² See Exhibit 3a, Outline Page 7.

respect to Part I the laws, rules and regulations a candidate is expected to know to perform the functions and associated tasks outlined in that part. These include the applicable FINRA Rules (e.g., FINRA Rule 2210), NASD Rules (e.g., NASD Rule 2711), NYSE Rules (e.g., NYSE Rule 344) and SEC rules (e.g., Securities Act Rule 137).¹³ Further, the outline lists with respect to Part II the technical and analytical knowledge (e.g., analysis of packaged securities) required to perform the functions and associated tasks outlined in that part.¹⁴

FINRA conducted a job analysis study of Supervisory Analysts, which included the use of a survey, in developing the functions and tasks and updating the required knowledge set forth in the revised outline. The functions and tasks, which appear in the revised outline for the first time, reflect the day-to-day activities of a Supervisory Analyst.

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 IM-2110-4 (Trading Ahead of Research Reports) was consolidated as FINRA Rule 5280 (Trading Ahead of Research Reports)).¹⁵

FINRA is proposing similar changes to the Series 16 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 material. Among other changes, FINRA is

¹³ See Exhibit 3a, Outline Pages 7-9.

¹⁴ See Exhibit 3a, Outline Pages 10-13.

¹⁵ See also Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

proposing to: (1) add a table of contents;¹⁶ (2) provide more details regarding the purpose of the examination and a list of the types of communications that can be approved by a Supervisory Analyst;¹⁷ (3) provide more details on the required experience to be eligible to register as a Supervisory Analyst and a list of examples of appropriate experience;¹⁸ (4) 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 (5) note the required waiting periods for retaking failed examinations;²⁰ (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;²¹ and (7) delete Appendix 1, Financial Ratios and Formulas Reference, which provided a sampling of the types of ratios and formulas that relate to Part II of the outline.

The number of questions on the Series 16 examination will remain at 100 multiple-choice questions (50 multiple-choice questions for each part), and candidates will continue to have one and one-half hours to complete Part I of the examination and two hours to complete Part II. Currently, a score of 72 percent is required to pass Part I of the examination, and a score of 74 percent is required to pass Part II. The passing scores will remain the same.

¹⁶ See Exhibit 3a, Outline Page 2.

¹⁷ See Exhibit 3a, Outline Page 3.

¹⁸ See Exhibit 3a, Outline Page 3.

¹⁹ See Exhibit 3a, Outline Page 5.

²⁰ See Exhibit 3a, Outline Page 6.

²¹ See Exhibit 3a, Outline Page 6.

Availability of Content Outlines

The current Series 16 content outline is available on FINRA's website, at www.finra.org/brokerqualifications/exams. The revised Series 16 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 16 examination program on October 28, 2013. 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 16 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,²² 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,²³ 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 Supervisory Analyst.

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

²² 15 U.S.C. 78o-3(b)(6).

²³ 15 U.S.C. 78o-3(g)(3).

Supervisory Analysts and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and 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 Act²⁴ and paragraph (f)(1) of Rule 19b-4 thereunder.²⁵ 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

²⁴ 15 U.S.C. 78s(b)(3)(A).

²⁵ 17 CFR 240.19b-4(f)(1).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2013-032 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-FINRA-2013-032. 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-2013-032 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.²⁶

Kevin M. O'Neill
Deputy Secretary

²⁶ 17 CFR 200.30-3(a)(12).