

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76188; File No. SR-FINRA-2015-042)

October 19, 2015

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the New Securities Trader Qualification Examination (Series 57)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 13, 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 “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,<sup>3</sup> 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 the content outline and selection specifications for the new Securities Trader qualification examination (Series 57).<sup>4</sup> FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.19b-4(f)(6).

<sup>4</sup> FINRA also is establishing the Series 57 question bank. FINRA is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder, and is not filing the question bank. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation,

The Series 57 content outline is attached.<sup>5</sup> The Series 57 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>6</sup>

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

1. Purpose

Section 15A(g)(3) of the Act<sup>7</sup> 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

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

<sup>5</sup> The Commission notes that the content outline is attached to the filing, not to this Notice.

<sup>6</sup> 17 CFR 240.24b-2.

<sup>7</sup> 15 U.S.C. 78o-3(g)(3).

competence and knowledge, consistent with applicable registration requirements under FINRA rules.

The Commission recently approved a proposed rule change to amend NASD Rule 1032(f) (Limited Representative – Equity Trader) to replace the Equity Trader registration category and qualification examination (Series 55) with the Securities Trader registration category and qualification examination (Series 57).<sup>8</sup> The rule provides that each associated person of a member who is included within the definition of “representative” in NASD Rule 1031 (Registration Requirements) is required to register with FINRA as a Securities Trader if, with respect to transactions in equity (including equity options), preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis or the direct supervision of such activities.<sup>9</sup> In addition, NASD Rule 1032(f) provides that in order to register as a Securities Trader, an applicant must pass the Series 57 examination. The Series 57 examination will qualify an associated person to function as a Securities Trader. There is no prerequisite registration requirement for Securities Trader registration. An associated person registered as a Securities Trader will not be qualified to function in any other registered capacity, unless he or she is qualified and registered in that other registration category.<sup>10</sup> For instance, a

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<sup>8</sup> See Securities Exchange Act Release No. 75783 (August 28, 2015), 80 FR 53369 (September 3, 2015) (Order Approving File No. SR-FINRA-2015-017) (“Approval Order”).

<sup>9</sup> There is an exception from the Securities Trader registration requirement for any associated person of a member whose trading activities are conducted principally on behalf of an investment company that is registered with the SEC pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member.

<sup>10</sup> See NASD Rule 1032(f).

person registered as a Securities Trader will not be able to engage in any retail or institutional sales activities, unless he or she is qualified and registered in the appropriate registration category, such as a General Securities Representative.

In addition, the Commission approved amendments to NASD Rule 1022(a) (General Securities Principal) to establish a Securities Trader Principal registration category and require each associated person of a member who is included within the definition of “principal” in NASD Rule 1021 (Registration Requirements) with supervisory responsibility over the securities trading activities described in NASD Rule 1032(f), to qualify and register as a Securities Trader Principal.<sup>11</sup> To qualify for registration as a Securities Trader Principal, an associated person must be registered as a Securities Trader and pass the General Securities Principal qualification examination (Series 24). An associated person registered as a Securities Trader Principal will not be eligible to register as a General Securities Principal unless the person passes the appropriate prerequisite examination for General Securities Principal registration, such as the Series 7 examination. In this regard, NASD Rule 1022(a) provides that a person qualified and registered as a Securities Trader Principal may only have supervisory responsibility over the activities specified in NASD Rule 1032(f), unless the person is separately qualified and registered in another appropriate principal registration category, such as the General Securities Principal registration category.

FINRA is expecting the national securities exchanges to file similar proposed rule changes to replace the Proprietary Trader qualification examination (Series 56) with the Series 57 examination in their respective registration rules relating to securities trading

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<sup>11</sup> See Approval Order, supra note 8.

activities. Further, the Series 57 examination will replace the Series 56 examination for those exchange registration categories, such as the Proprietary Trader Principal registration category, where the Series 56 examination is currently an acceptable prerequisite.

FINRA developed the Series 57 examination in consultation with a committee of industry representatives and representatives of several exchanges. The examination is based on the current job functions of a Securities Trader and includes elements of the Series 55 and 56 examinations. The Series 57 content outline covers the laws, rules and regulations relevant to securities trading as well as the functions and associated tasks performed by a Securities Trader.

#### Series 57 Content Outline

The Series 57 content outline is divided into four major job functions that are performed by a Securities Trader. The following are the four major job functions, denoted Function 1 through 4, with the associated number of questions:

Function 1: Market Overview and Products, 22 questions;

Function 2: Engaging in Professional Conduct and Adhering to Regulatory Requirements, 12 questions;

Function 3: Trading Activities, 79 questions; and

Function 4: Maintaining Books and Records and Trade Reporting, 12 questions.

The number of questions assigned to each major job function reflects the key tasks performed by a Securities Trader.

Each function also includes specific tasks describing activities associated with performing that function. There are three tasks (1.1 – 1.3) associated with Function 1;

two tasks (2.1 – 2.2) associated with Function 2; three tasks (3.1 – 3.3) associated with Function 3; and two tasks (4.1 – 4.2) associated with Function 4.<sup>12</sup> By way of example, one such task, Task 4.2, relates to creating, retaining, and reporting required records of orders and transactions.<sup>13</sup> Further, the content outline lists the knowledge required to perform each function and associated tasks (e.g., in connection with Task 4.2, large trader ID and related reporting and monitoring requirements and order execution/routing information).<sup>14</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.<sup>15</sup> These include applicable federal securities laws, as well as FINRA and other self-regulatory organization rules and regulations. FINRA conducted a job analysis study of Securities Traders, which included the use of a survey, in developing each function and associated tasks and the required knowledge set forth in the content outline. The functions and associated tasks reflect the day-to-day activities of a Securities Trader. The Series 57 selection specifications and question bank cover the topics in the content outline.

The content outline also includes sample questions<sup>16</sup> and reference materials.<sup>17</sup> In the preface, the content outline includes, among other things: (1) a table of contents; (2) details regarding the purpose of the examination; (3) eligibility requirements; (4) the

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<sup>12</sup> See Exhibit 3a, Outline Pages 6 - 13. The Commission notes that all references to Exhibit 3a refer to Exhibit 3a to the proposed rule change.

<sup>13</sup> See Exhibit 3a, Outline Page 13.

<sup>14</sup> See Exhibit 3a, Outline Page 13.

<sup>15</sup> See Exhibit 3a, Outline Pages 14 - 36.

<sup>16</sup> See Exhibit 3a, Outline Page 37.

<sup>17</sup> See Exhibit 3a, Outline Page 38.

application procedures; (5) information regarding the structure of the examination; (6) details regarding the development and maintenance of the content outline and examination; (7) information regarding the administration of the examination; (8) an explanation that the passing score is determined by FINRA based on a number of factors including industry trends, historical exam performance and evaluations of the content difficulty by a committee of industry professionals, using a standard setting procedure, and that a statistical adjustment process known as equating is used in scoring examinations; and (9) an explanation 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.<sup>18</sup>

The number of questions on the Series 57 examination will be 125 scored multiple-choice questions,<sup>19</sup> and candidates will have three hours and 45 minutes to complete the examination. The passing score will be 70 percent.

#### Availability of Content Outline

The Series 57 content outline is available on FINRA's website, at <http://www.finra.org/industry/qualification-exams>.

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<sup>18</sup> See Exhibit 3a, Outline Pages 2 - 5.

<sup>19</sup> Consistent with FINRA's practice of including "pretest" items on 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.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the Series 57 examination on January 4, 2016. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

## 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>20</sup> 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,<sup>21</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed rule change furthers these purposes by establishing the qualification examination that individuals, including associated persons of FINRA members, must pass to register and function as Securities Traders and Securities Trader Principals. The examination is intended to safeguard the investing public by helping to ensure that individuals registering as Securities Traders, as well as those responsible for the supervision of securities trading activities, are competent to perform their job functions.

### 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 new examination aligns with the functions and associated tasks currently performed by associated persons engaged in securities trading and tests knowledge of the

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<sup>20</sup> 15 U.S.C. 78o-3(b)(6).

<sup>21</sup> 15 U.S.C. 78o-3(g)(3).



laws, rules, regulations and skills relevant to those functions and associated tasks.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>22</sup> and Rule 19b-4(f)(6) thereunder.<sup>23</sup>

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:

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<sup>22</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>23</sup> 17 CFR 240.19b-4(f)(6).

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2015-042 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FINRA-2015-042. 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 a.m. and 3 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-2015-042 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.<sup>24</sup>

Robert W. Errett  
Deputy Secretary

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<sup>24</sup> 17 CFR 200.30-3(a)(12).