

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-65375; File No. SR-FINRA-2011-048)

September 21, 2011

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Revise the Series 38 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 7, 2011, Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) 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 Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</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 revisions to the content outline and selection specifications for the Canada Securities Representative (Series 38) examination program.<sup>5</sup> The proposed revisions

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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> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

<sup>5</sup> FINRA also is proposing corresponding revisions to the Series 38 question bank, but based upon instruction from the Commission staff, FINRA is submitting SR-FINRA-2011-048 for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and

update the material to reflect changes to the laws, rules and regulations covered by the examination and to better reflect the functions and associated tasks performed by a Canada Securities Representative and the relationships between the different components of the 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.<sup>6</sup> The Series 38 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>7</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, Proposed Rule Change

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Rule 19b-4(f)(1) thereunder, and is not filing the question bank for Commission 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 Commission review.

<sup>6</sup> The Commission notes that the content outline is attached to the filing, not to this Notice.

<sup>7</sup> 17 CFR 240.24b-2.

1. Purpose

Section 15A(g)(3) of the Act<sup>8</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 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 Rules and the rules incorporated from NYSE<sup>9</sup> require that a “representative,” as defined in the respective rules,<sup>10</sup> register and qualify as a General Securities Representative,<sup>11</sup> subject to certain exceptions. For those representatives who are not engaged in municipal securities activities, the NASD and NYSE Rules provide that registration and qualification as a

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<sup>8</sup> 15 U.S.C. 78o-3(g)(3).

<sup>9</sup> 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 referred to as the NYSE Rules.

<sup>10</sup> See NASD Rule 1031(b) and NYSE Rule 10.

<sup>11</sup> See NASD Rules 1031(a) and 1032(a); NYSE Rules 345.10 and 345.15(2); and NYSE Rule Interpretation 345.15/02.

Canada Securities Representative is equivalent to registration and qualification as a General Securities Representative.<sup>12</sup>

The Series 38 examination is a FINRA examination that qualifies an individual to function as a Canada Securities Representative.<sup>13</sup>

A committee of industry representatives, together with FINRA staff, recently undertook a review of the Series 38 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 better reflect the functions and associated tasks performed by a Canada Securities Representative and the relationship between the different components of the content outline.

### **Current Outline**

The current Series 38 content outline is divided into six topics. The following are the number of questions associated with each of the six topics, denoted I through VI:

I: 16 questions

II: 10 questions

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<sup>12</sup> See NASD Rule 1032(a)(2)(C) and NYSE Information Memorandum 96-06 (March 1996). FINRA is filing proposed revisions to the Series 7 examination program in conjunction with this filing. See SR-FINRA-2011-045.

<sup>13</sup> Both the Series 37 examination and the Series 38 examination are FINRA examinations that qualify an individual to function as a Canada Securities Representative. In either case, candidates must also satisfy certain prerequisite training and competence requirements of the Canadian regulators and be registered and in good standing with the appropriate Canadian regulator. However, candidates for the Series 38 examination are subject to the following additional Canadian prerequisite. They must complete either: (1) the Options Licensing Course and the Derivatives Fundamental Course; or (2) the Canadian Options Course. More information regarding the prerequisite requirements is available on FINRA's website at: <http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/Registered>

III: 4 questions

IV: 5 questions

V: 4 questions

VI: 6 questions

The topics include: Federal and State Laws and Industry Regulations; Investments; Margin; Retirement Plans; Variable Annuities; and Taxation.<sup>14</sup>

### **Proposed Revisions**

FINRA is proposing to divide the Series 38 content outline into five major job functions performed by a Canada Securities Representative. The following are the five major job functions, denoted F1 through F5, and the number of questions associated with each of the five functions:

F1: Seeks Business for the Broker-Dealer through Customers and Potential Customers, 7 questions;

F2: Evaluates Customers' Other Security Holdings, Financial Situation and Needs, Financial Status, Tax Status, and Investment Objectives, 7 questions;

F3: Opens Accounts, Transfers Assets, and Maintains Appropriate Account Records, 12 questions;

F4: Provides Customers with Information on Investments and Makes Suitable Recommendations, 10 questions; and

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[Reps/Qualifications/P121265](#). FINRA is filing proposed revisions to the Series 37 examination program in conjunction with this filing. See SR-FINRA-2011-047.

<sup>14</sup> Unlike the Series 37 examination, the Series 38 examination does not include test questions that assess knowledge of options since individuals wishing to sit for the Series 38 examination are already subject to the Canadian options prerequisite noted above.

F5: Obtains and Verifies Customer's Purchase and Sales Instructions, Enters Orders, and Follows Up, 9 questions.

Additionally, each job function includes certain tasks describing activities associated with performing that function. FINRA is proposing to revise the outline to better reflect the functions and associated tasks performed by a Canada Securities Representative.

The revised content outline also includes a knowledge section describing the underlying knowledge required to perform the major job functions and associated tasks and a rule section listing the laws, rules and regulations related to the job functions, associated tasks and knowledge statements. There are cross-references within each section to the other applicable sections.

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., FINRA Rule 3240 (Borrowing From or Lending to Customers)).

FINRA is proposing similar changes to the Series 38 selection specifications and question bank. The number of questions on the Series 38 examination will remain at 45 multiple-choice questions, and candidates will continue to have 75 minutes to complete the examination.

Currently, a score of 70 percent is required to pass the examination. A score of 72 percent will be required to pass the revised examination.

### **Availability of Content Outlines**

The revised Series 38 content outline will be available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams).

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 38 examination program on November 7, 2011. 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 38 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>15</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>16</sup> 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 better reflect the functions and associated tasks performed by a Canada Securities Representative.

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.

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

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

<sup>16</sup> 15 U.S.C. 78o-3(g)(3).

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>17</sup> and paragraph (f)(1) of Rule 19b-4 thereunder.<sup>18</sup> FINRA proposes to implement the revised Series 38 examination program on November 7, 2011. FINRA will announce the implementation date in a Regulatory Notice.

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](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2011-048 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.

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<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4(f)(1).

All submissions should refer to File Number SR-FINRA-2011-048. 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-2011-048 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>19</sup>

Elizabeth M. Murphy  
Secretary

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<sup>19</sup> 17 CFR 200.30-3(a)(12).