

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82578; File No. SR-FINRA-2018-002)

January 24, 2018

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the New Securities Industry Essentials Examination

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 12, 2018, 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,³ 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 Industry Essentials™ (SIE™) examination.⁴ FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

⁴ FINRA also is establishing the SIE 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)(6) thereunder, and is not filing the question bank. 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.

The SIE content outline is attached.⁵ The SIE 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. [sic]

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 the 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

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

⁶ 17 CFR 240.24b-2.

⁷ 15 U.S.C. 78o-3(g)(3).

appropriate in view of changes pertaining to the subject matter covered by the examinations.

The SEC recently approved a proposed rule change to restructure the FINRA representative-level qualification examination program.⁸ The rule change, which will become effective on October 1, 2018,⁹ restructures the examination program into a more efficient format whereby all new representative-level applicants will be required to take a general knowledge examination (the SIE) and a tailored, specialized knowledge examination (a revised representative-level qualification examination) for their particular registered role. Individuals are not required to be associated with a FINRA member to be eligible to take the SIE examination. However, passing the SIE examination alone will not qualify an individual for registration with FINRA. To be eligible for registration, an individual must also be associated with a firm, pass an appropriate qualification examination for representative or principal and satisfy the other requirements relating to the registration process.

The restructured program eliminates duplicative testing of general securities knowledge on the current representative-level qualification examinations by moving such content into the SIE examination.¹⁰ The SIE examination will test fundamental securities-related knowledge, including knowledge of basic products, the structure and function of the securities industry, the regulatory agencies and their functions and regulated and prohibited practices, whereas the revised representative-level qualification examinations will test knowledge relevant to day-to-

⁸ See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

⁹ See Regulatory Notice 17-30 (SEC Approves Consolidated FINRA Registration Rules, Restructured Representative-Level Qualification Examinations and Changes to Continuing Education Requirements) (October 2017).

¹⁰ Each of the current representative-level examinations covers general securities knowledge, with the exception of the Research Analyst (Series 86 and 87) examinations.

day activities, responsibilities and job functions of representatives.¹¹

FINRA developed the SIE examination in consultation with a committee of industry representatives and representatives of several other self-regulatory organizations (“SROs”). Beginning on October 1, 2018, new applicants seeking to register as representatives must pass the SIE examination and a revised representative-level qualification examination, such as the revised General Securities Representative (Series 7) examination, appropriate to their job functions at the firm with which they are associating before their registrations can become effective.¹²

SIE Content Outline

As noted above, FINRA is proposing to move the general securities knowledge currently covered on the representative-level qualification examinations to the SIE examination. For example, FINRA Rule 3220 (Influencing or Rewarding Employees of Others) (the Gifts Rule) will now be tested on the SIE examination, rather than on the representative-level examinations.

The SIE content outline is divided into four sections. The following are the four sections, denoted Section 1 through Section 4, with the associated number of questions:

Section 1: Knowledge of Capital Markets, 12 questions;

Section 2: Understanding Products and Their Risks, 33 questions;

Section 3: Understanding Trading, Customer Accounts and Prohibited Activities, 23 questions; and

Section 4: Overview of the Regulatory Framework, 7 questions.

Each section includes the essential areas of general knowledge. There are four areas (1.1

¹¹ In conjunction with this proposed rule change, FINRA also is filing with the Commission the content outlines for the revised representative-level qualification examinations.

¹² FINRA Rule 1220(b) sets forth each representative-level registration category and applicable qualification examination.

– 1.4) associated with Section 1;¹³ two areas (2.1 – 2.2) associated with Section 2;¹⁴ three areas (3.1 – 3.3) associated with Section 3;¹⁵ and two areas (4.1 – 4.2) associated with Section 4.¹⁶ For example, one such area of knowledge (subsection 1.3) covers economic factors, such as the Federal Reserve Board’s impact on business activity and market stability.¹⁷ Further, subsection 2.1 covers knowledge of the characteristics of the specified securities products, such as voting rights associated with equity securities.¹⁸ In addition, each of the four sections lists the applicable laws, rules and regulations related to the areas of knowledge. These include applicable federal securities laws as well as FINRA rules and rules of other SROs. The SIE selection specifications and question bank cover the topics in the content outline.

The content outline also includes a preface, which provides: (1) an overview of the purpose of the examination; (2) a table of contents and general information regarding the structure of the examination; and (3) general information regarding the administration of the examination, including an explanation that a statistical adjustment process known as equating is used in scoring the examination.¹⁹

¹³ See Exhibit 3a, Outline Pages 3-5. The outline is attached as Exhibit 3a to the 19b-4 form.

¹⁴ See Exhibit 3a, Outline Pages 6-9.

¹⁵ See Exhibit 3a, Outline Pages 10-13.

¹⁶ See Exhibit 3a, Outline Pages 14-15.

¹⁷ See Exhibit 3a, Outline Pages 3-4.

¹⁸ See Exhibit 3a, Outline Pages 6-8.

¹⁹ See Exhibit 3a, Outline Page 2.

The number of questions on the SIE examination will be 75 scored multiple-choice questions,²⁰ and candidates will have one hour and 45 minutes to complete the examination. FINRA will publish the passing score for the SIE examination on its website, at www.finra.org, prior to its first administration.

Availability of Content Outline

The SIE content outline will be made available on FINRA's website no later than April 1, 2018.

FINRA is filing the proposed rule change for immediate effectiveness. The implementation date will be October 1, 2018, to coincide with the implementation of the restructured representative-level examination program. FINRA will also announce the implementation date of the proposed rule change in a Regulatory Notice.

2. Statutory Basis

FINRA believes that the SIE examination is 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. The proposed rule change will

²⁰ Consistent with FINRA's practice of including "pretest" questions on examinations, the SIE examination includes 10 additional, unidentified pretest questions that do not contribute towards the candidate's score. The pretest questions are designed to ensure that new examination questions meet acceptable testing standards prior to use for scoring purposes. Therefore, the SIE examination actually consists of 85 questions, 75 of which are scored. The 10 pretest questions are randomly distributed throughout the examination.

²¹ 15 U.S.C. 78o-3(b)(6).

²² 15 U.S.C. 78o-3(g)(3).

improve the efficiency of FINRA's representative-level examination program, without compromising the qualification standards, by moving the general securities knowledge content from the representative-level examinations to the SIE examination. The proposed rule change also establishes a prerequisite qualification examination that associated persons of FINRA members must pass, in addition to passing an appropriate representative-level examination, to register and function as representatives. Finally, the SIE examination is intended to safeguard the investing public by helping to ensure that individuals registering as representatives have the requisite general securities knowledge.

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 SIE examination generally covers the same general securities knowledge that is currently covered on the representative-level examinations. FINRA also provided a detailed economic impact assessment regarding the introduction of the SIE examination and the restructuring of the representative-level examinations as part of the proposed rule change to restructure the FINRA representative-level qualification examination program.²³

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;

²³ See Securities Exchange Act Release No. 80371 (April 4, 2017), 82 FR 17336 (April 10, 2017) (Notice of Filing of File No. SR-FINRA-2017-007).

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 Act²⁴ and Rule 19b-4(f)(6) 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2018-002 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-2018-002. This file number should be

²⁴ 15 U.S.C. 78s(b)(3)(A).

²⁵ 17 CFR 240.19b-4(f)(6).

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 the filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment

submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2018-002 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

Eduardo A. Aleman
Assistant Secretary

²⁶ 17 CFR 200.30-3(a)(12).