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# Municipal Securities Representative Qualification Examination (Series 52)

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[CONTENT OUTLINE](#)



Municipal Securities Rulemaking Board

# Municipal Securities Representative Qualification Examination (Series 52)

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## INTRODUCTION

This content outline is intended to help candidates prepare for the Municipal Securities Representative Qualification Examination (Series 52) by providing relevant information about the examination itself and sharing pertinent information about the content areas that are covered. The sample questions that appear on page 13 are similar to the types of multiple-choice questions that will appear in the examination. In addition, government and other self-regulatory organization websites that may be useful in preparing for the examination are provided at the end of the outline.

The questions used in the examination are reviewed and updated on a regular basis and reflect current market practices. Questions that test new rules or amendments will be included in the examination after the effective date of the rule or rule change. Existing questions on rules or portions of rules that have been deleted will be removed from the examination prior to the effective date of the amendment. The Series 52 exam is developed and maintained by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization that establishes rules for municipal securities dealers and municipal advisors.

### THE MUNICIPAL SECURITIES REPRESENTATIVE

The municipal securities representative is any natural person associated with a broker, dealer or municipal securities dealer, other than a person whose functions are solely clerical or ministerial, who activities include one or more of the following:

- underwriting, trading or sales of municipal securities;
- financial advisory or consultant services for issuers in connection with the issuance of municipal securities;
- research or investment advice with respect to municipal securities; or
- any other activities which involve communication, directly or indirectly, with public investors in municipal securities.

### THE EXAMINATION

The Municipal Securities Representative Qualification Examination is designed to measure a candidate's qualification and competency to engage in the municipal securities business. The examination includes questions on municipal securities, the municipal market, economic activity, government policy, factors affecting interest rates, and applicable federal securities laws and regulations.

The percentages assigned to each of these topics on the examination are as follows:

Municipal Securities	60%
Economic Activity, Government Policy and the Behavior of Interest Rates	14%
Securities Laws and Regulations	26%

The examination includes 75 scored multiple-choice questions that test the topics specified in this outline. Each multiple-choice question is worth one point and the passing grade set by the MSRB is 70%. It is in a candidate's best interest to answer all questions because an unanswered question is considered an incorrect answer. To ensure that all new questions meet acceptable testing standards prior to use for scoring purposes, each question is pretested. Each candidate exam includes 5 additional, unidentified pretest questions that do not contribute toward the candidate's score. The 5 questions are randomly distributed throughout the exam. Therefore, each exam consists of a total of 80 questions (75 scored and 5 unscored). Candidates are allowed two and one half hours to complete the examination.<sup>1</sup>

Because the examination is a closed-book test, candidates are not permitted any reference materials during the test administration. If needed, electronic calculators will be provided by the test center or within the examination.

## **CONFIDENTIALITY**

In order to ensure that its examinations constitute valid tests of the qualifications of persons who take them, the MSRB has instituted various procedures, in the question-writing and administrative phases, which are designed to preserve the confidentiality of the examinations. On several occasions, the MSRB has found it necessary to take legal action, alleging copyright violations, against securities training schools that had used in their training material questions and answers that were determined to have been taken from questions contained in MSRB qualification examinations. In addition, candidates are advised that the practice of "debriefing" persons who have taken a qualification examination may not only give rise to an infringement of the MSRB's copyright but would be a violation of MSRB rules for the candidate.<sup>2</sup>

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<sup>1</sup>The examination is administered by FINRA on its PROCTOR system. For further information on application and administration procedures for MSRB examinations, please contact FINRA at 301-590-6500.

<sup>2</sup>Rule G-3(f) on "Confidentiality of Qualification Examinations" states that:

- No associated person of a broker, dealer, municipal securities dealer or municipal advisor shall:*
- (i) *in the course of taking a qualification examination required by this rule receive or give assistance of any nature;*
  - (ii) *disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;*
  - (iii) *engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or*
  - (iv) *knowingly sign a false certification concerning any such qualification examination.*

## PART 1: MUNICIPAL SECURITIES (60% OF TEST QUESTIONS)

### **1.1 Types of Municipal Securities**

#### **1.1.1 General obligation bonds:**

- 1.1.1.1 Source of payment: *generally payable from taxes (limited tax; unlimited tax);*
- 1.1.1.2 Limitations on issuance (*voter approval; statutory or constitutional*)

#### **1.1.2 Revenue bonds:**

- 1.1.2.1 Source of payment: *generally payable from project revenues*
- 1.1.2.2 Limitations on issuance: *Usually not subject to statutory debt limitations; may be issued by any authorized political entity*
- 1.1.2.3 Purposes: *Utility revenue (e.g., water, sewer, electric); housing revenue (e.g., single-family, multi-family); transportation (e.g., airport revenue, toll road); education (e.g., dormitory, student loan, general revenue); health (e.g., hospital, life care); industrial (e.g., industrial development, pollution control)*

- 1.1.3 **Special type bonds:** *Special tax; special assessment; moral obligation; double-barreled; lease rental; certificate of participation (COP)*

- 1.1.4 **Taxable municipal securities:** *Build America Bonds (BABs); taxable municipal bonds; other tax credit bonds*

#### **1.1.5 Short-term obligations**

- 1.1.5.1 Notes: *Tax anticipation notes (TAN); tax and revenue anticipation notes (TRAN); bond anticipation notes (BAN); revenue anticipation notes (RAN); variable rate demand obligations (VRDOs); multimodal); grant anticipation notes (GAN); construction loan notes (CLN)*
- 1.1.5.2 Tax-exempt commercial paper

- 1.1.6 **Municipal fund securities** (Basic characteristics, ownership and contribution limits)

### **1.2 Characteristics of Municipal Securities**

#### **1.2.1 Basic characteristics**

- 1.2.1.1 Method of quotations: *Yield; dollar price, bid/ask spread*
- 1.2.1.2 Forms of ownership: *Fully registered; book-entry only*
- 1.2.1.3 Depository eligibility
- 1.2.1.4 Delivery procedures: *Cash (same day); regular way; delayed delivery; special settlement (as mutually agreed upon); forward delivery*
- 1.2.1.5 Legal opinion
- 1.2.1.6 Interest

- 1.2.1.6.1 Rates: *Fixed; variable/floating; capital appreciation bonds (zeros); zeros; convertible/stepped coupons*
- 1.2.1.6.2 Payment periods
- 1.2.1.7 Maturity: *Term; serial*
- 1.2.1.8 Denominations
- 1.2.1.9 Early redemption
- 1.2.1.9.1 Types: *Optional; sinking fund; extraordinary; mandatory; make whole call*
- 1.2.1.9.2 Bond refunding methods: *Direct exchange versus sale of new issue; refunding (current); advance refunding (pre-refunding); escrowed to maturity (ETM); crossover refunding*
- 1.2.1.9.3 Procedures: *Tender; call; puts; open-market purchase*
- 1.2.1.9.4 Advantages and disadvantages: *To issuer; to investor*

## **1.2.2 Tax considerations**

- 1.2.2.1 Interest
- 1.2.2.1.1 Federal income tax status: *Tax-exempt; taxable; alternative minimum tax (AMT); bank qualified bonds*
- 1.2.2.1.2 State and local income tax status
- 1.2.2.1.3 Value of tax exemption: *To investor; to issuer*
- 1.2.2.2 Principal
- 1.2.2.2.1 Premiums and discounts: *Amortization of premiums; accretion of discounts; tax consequences for different types of investors; de minimis exemption on original issue discount (OID) bonds*
- 1.2.2.2.2 Capital gains/losses: Cost basis; rates; wash sales; offsets; tax swaps
- 1.2.2.2.3 Original issue discount/premium
- 1.2.2.2.4 Market discount/premium
- 1.2.2.2.5 Compound accreted value
- 1.2.3 **Factors affecting marketability and liquidity:** *Ratings; maturity; call feature; coupon; block size; issue size; dollar/yield price; issuer name, local or national; sinking fund; blue sky laws; credit and liquidity support; denominations; type of issuance; source of funds*

## **1.3 The Market for Municipal Securities**

### **1.3.1 Primary Market**

- 1.3.1.1 Methods of primary financing:
  - 1.3.1.1.1 Competitive sale
  - 1.3.1.1.2 Negotiated sale: Public offering; private placement (limited offering)
- 1.3.1.2 Information sources
- 1.3.1.2.1 Notice of Sale
- 1.3.1.2.2 Official statement: *Preliminary; final*
- 1.3.1.2.3 Issuers or financial advisors

- 1.3.1.2.4 Electronic Municipal Market Access (EMMA®) website
  - 1.3.1.2.5 New issue/commitment wires
  - 1.3.1.2.6 Print and electronic news services
  - 1.3.1.3 Underwriting procedures
  - 1.3.1.3.1 Account formation procedures: *Determining members and participation; underwriting account agreement—documents (syndicate letter (competitive); agreement among underwriters (negotiated); types of accounts (undivided; divided); roles of underwriters (responsibilities of manager, responsibilities of members); selling groups*
  - 1.3.1.3.2 Determination of syndicate bid: *Components (scale, spread, interest rates); computation of bid—production, swing coupon; bid price; terms and conditions; submission of bid; basis forward (net interest cost; true interest cost (Canadian method); gross interest cost); bond years; factors relevant to the member's participation in the bid (pre-sale orders; determination of liability; scale and spread; ability to sell this issue)*
  - 1.3.1.3.3 Syndicate operational procedures
  - 1.3.1.3.3.1 Establish offering terms: *Order period; concessions and takedowns; retention bonds; priority provisions (retail orders; group orders; designated orders; member orders)*
  - 1.3.1.3.3.2 Establish time of first trade
  - 1.3.1.3.3.3 Settlement terms: *When-as-and-if-issued; establishment of delivery dates; final accounting and settlement*
  - 1.3.1.3.3.4 Required disclosures: *EMMA® (primary offerings, material event notices); NIIDS; SHORT; delivery of official statement*
  - 1.3.1.4 Functions of a bond attorney: *Determine authority for bond issuance; render a legal opinion concerning tax status; issue a legal opinion*
  - 1.3.1.5 Role of financial advisor
- 1.3.2 Secondary Market**
- 1.3.2.1 Traded over-the-counter (OTC)
  - 1.3.2.2 Information sources: *Dealers' offering sheets; brokers' brokers communications; inter-dealer communications; EMMA®; electronic information services*
  - 1.3.2.3 Market participants: Institutional; retail; dealers; municipal advisors; brokers' brokers; *alternative trading systems (ATS)*
  - 1.3.2.4 Secondary market procedures
  - 1.3.2.4.1 Kinds of transactions: Principal; agency; riskless principal
  - 1.3.2.4.2 Trading terms: *Bid; offering; list; down bid; workable indications; evaluation; all or none (AON); minimums and multiples; out firm; fill-or-kill; locked market; cover bid*
  - 1.3.2.5 Functions of a municipal bond trader: *Make markets; position trading; joint accounts; appraisals and evaluations; hedging*
- 1.3.3 Market indicators**
- 1.3.3.1 Published indices: *Bond Buyer indices (visible supply; placement ratio); MMD curve; SIFMA index; U.S. Treasuries; London Interbank Offered Rate (ICE/LIBOR)*
  - 1.3.3.2 Other market-level indicators: *New-issue scales; electronic trading information platforms; market activity in other securities; current economic factors; futures*

**1.3.4 Customer suitability considerations**

- 1.3.4.1 Financial profile
- 1.3.4.2 Tax status
- 1.3.4.3 Investment objectives: *Safety of principal; income liquidity; growth; speculation*
- 1.3.4.4 Diversification: *Geographical; maturity; purpose of issue; security; quality*
- 1.3.4.5 Investment risks: *Financial (credit risk); market (interest rate risk); put and call features; legislative risk; inflationary risk; reinvestment risk; price risk; selection risk; timing risk; liquidity risk*

**1.4 Analyzing Municipal Credit****1.4.1 General obligation securities**

- 1.4.1.1 Demographic considerations: *Tax base; diversification of economic activity; population trends; geography*
- 1.4.1.2 Nature of the issuer's debt: *Present and past attitudes toward debt; debt trend; schedule of debt service requirements; contemplated financing; relation of debt to the life of improvement*
- 1.4.1.3 Factors affecting ability to pay: *Budgetary practices and legislative climate; current financial condition; Unfunded liabilities (pension funds, etc.); tax limitations; tax rates, trends and comparisons; tax collection record; trends in assessed valuation; non-tax revenues; overlapping debt; litigation*
- 1.4.1.4 Municipal debt ratios: *Net overall (direct and overlapping) debt to assessed valuation; net overall (direct and overlapping) debt to estimated real valuation; per capita net debt; debt service to annual revenues*

**1.4.2 Revenue bonds**

- 1.4.2.1 Feasibility study: *Need for project; existing or potential competitive facilities; engineering reports; economic viability*
- 1.4.2.2 Sources of revenue: *User charges; concessions and fees; special taxes; rental or lease payments (public agencies; private agencies); legislative appropriation*
- 1.4.2.3 Security
- 1.4.2.3.1 Bond indenture: *Rate covenant; insurance covenant; operation and maintenance covenant; requirement for financial reports and outside audits; restrictions on issuance of additional bonds (open-end indenture; closed-end indenture; project completion)*
- 1.4.2.3.2 Flow of funds: *Types of funds (revenue; operation and maintenance; sinking fund or debt service; debt service reserve; reserve maintenance; renewal and replacement; surplus; construction); application of revenue (net revenue pledge; gross revenue pledge)*
- 1.4.2.3.3 Debt service coverage
- 1.4.3 **Sources of credit information:** *The issuer; continuing disclosure information (EMMA®); advisory councils and services of certain states; commercial research services; industry and general publications*
- 1.4.4 **Rating services**

**1.4.5 Credit enhancements:** *Letters of credit (LOC); advance refunded; insurance; escrow*

**1.5 Mathematical Calculations and Methods**

**1.5.1 Yields:** *Yield to early redemption (put; call; par option; average life (sinking fund)); yield to maturity; current yield; after-tax yield; taxable equivalent yield*

**1.5.2 Duration**

**1.5.3 Basis points:** *Dollar value of a basis point; convexity*

**1.5.4 Dollar value of points and fractions**

**1.5.5 Accrued interest:** *Regular coupon; odd first coupon (long or short)*

**1.5.6 Level debt service**

**1.5.7 Capital gains**

**1.5.8 Flat**

**1.5.9 Market discount**

**1.5.10 Amortization of premium**

**1.5.11 Accretion of discount (i.e. OID)**

**PART 2:**  
**ECONOMIC ACTIVITY, GOVERNMENT POLICY AND**  
**THE BEHAVIOR OF INTEREST RATES**  
**(14% OF TEST QUESTIONS)**

**2.1 Monetary Policy**

**2.1.1 Major factors influencing Federal Reserve policy:** *Monetary aggregates; economic indices (Consumer Price Index; unemployment rate (non-farm payroll); housing starts (existing home sales); foreign trade deficits; purchasing manager's report; leading/lagging/co-existent indicators; Producer Price Index; Gross Domestic Product); commodity prices; foreign exchange rates; international economic activity*

**2.2 Fiscal Policy**

**2.2.1 U.S. Treasury debt management practices—impact of short-term and long-term financings**

**2.2.2 Federal budgetary practices and their impact on the money and capital markets:**  
*Deficits and surpluses; taxation and spending*

**2.3 Factors Affecting Interest Rates**

**2.3.1 Supply and demand for credit relative to the economic cycle**

**2.3.2 The effect of inflation and investor expectations on interest rate levels**

**2.3.3 Yield curve analysis:** *Financial and economic characteristics of a positive or negative (inverted) sloped yield curve; uses and implications*

**2.3.4 Yield spread differentials between credit quality groups:** *Impact of economic and financial conditions; during periods of high/low interest rate levels; compression*

**2.3.5 Changes in commodity and currency prices**

## PART 3: SECURITIES LAWS AND REGULATIONS (26% OF TEST QUESTIONS)

### **3.1 Regulation of Municipal Market Professionals**

**3.1.1 Securities Act of 1933:** *Municipal securities exempt from registration requirements; Antifraud provisions applicable to municipal issuers as well as brokers and dealers*

**3.1.2 Securities Exchange Act of 1934:**

3.1.2.1 Municipal securities exempt from registration requirements

3.1.2.2 Antifraud provisions applicable to municipal issuers as well as brokers and dealers

3.1.2.3 Amendments of 1975

3.1.2.3.1 Registration of municipal brokers, dealers and bank dealers with the SEC

3.1.2.3.2 Regulators: *Rulemaking (Municipal Securities Rulemaking Board (MSRB); Securities and Exchange Commission (SEC))*

3.1.2.3.3 Enforcement: *Securities and Exchange Commission (SEC); Financial Industry Regulatory Authority (FINRA); Federal Reserve Board; Comptroller of the Currency; Federal Deposit Insurance Corporation*

3.1.2.3.4 Applicable SEC rules: *Securities financial responsibility rules (inapplicable to banks); SEC Rule 15c2-12 on municipal securities disclosure; SEC antifraud rules*

### **3.2 MSRB rules**

3.2.1 Standards of Professional Qualification and Professional Qualification Requirements (MSRB Rules G-2 through G-3)

3.2.2 Books and Records to be Made by Brokers, Dealers, Municipal Securities Dealers and Municipal Advisors (MSRB Rule G-8)

3.2.3 Preservation of Records (MSRB Rule G-9)

3.2.4 Investor and Municipal Advisory Client Education and Protection (MSRB Rule G-10)

3.2.5 Primary Offering Practices (MSRB Rule G-11)

3.2.6 Uniform Practice (MSRB Rule G-12)

3.2.7 Quotations and Reports of Sales or Purchases (Transaction Reporting) (MSRB Rules G-13 and G-14)

- 3.2.8 Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers (i.e. minimum denomination) (MSRB Rule G-15)
- 3.2.9 Conduct of Municipal Securities and Municipal Advisory Activities (MSRB Rule G-17)
- 3.2.10 Best Execution (i.e. execution quality) (MSRB Rule G-18)
- 3.2.11 Suitability of Recommendations and Transactions (MSRB Rule G-19)
- 3.2.12 Gifts, Gratuities and Non-Cash Compensation (MSRB Rule G-20)
- 3.2.13 Advertising (MSRB Rule G-21)
- 3.2.14 Control Relationships (MSRB Rule G-22)
- 3.2.15 Activities of Financial Advisors (MSRB Rule G-23)
- 3.2.16 Use of Ownership Information Obtained in a Fiduciary Capacity (MSRB Rule G-24)
- 3.2.17 Improper Use of Assets (MSRB Rule G-25)
- 3.2.18 Customer Account Transfers (MSRB Rule G-26)
- 3.2.19 Supervision (MSRB Rule G-27)
- 3.2.20 Transactions with Employees and Partners of Other Municipal Securities Professionals (MSRB Rule G-28)
- 3.2.21 Availability of Board Rules (MSRB Rule G-29)
- 3.2.22 Prices and Commissions (MSRB Rule G-30)
- 3.2.23 Reciprocal Dealings with Municipal Securities Investment Companies (MSRB Rule G-31)
- 3.2.24 Disclosures in Connection with Primary Offerings (MSRB Rule G-32)
- 3.2.25 CUSIP Numbers, New Issue and Market Information Requirements (MSRB Rule G-34)
- 3.2.26 Political Contributions and Prohibitions on Municipal Securities Business (MSRB Rule G-37)
- 3.2.27 Solicitation of Municipal Securities Business (MSRB Rule G-38)
- 3.2.28 Broker's Brokers (MSRB Rule G-43)
- 3.2.29 Time of Trade Disclosure (MSRB Rule G-47)
- 3.2.30 Transactions with Sophisticated Municipal Market Professionals (MSRB Rule G-48)
- 3.2.31 Recently Enacted Rules Relating to the Conduct of Municipal Securities Business

## REFERENCES

Listed below are government and self-regulatory organization websites that provide information candidates may find useful in preparing for the exam. In addition to information about rules, the organizations listed may publish glossaries of terms, explanations of products, and compliance procedures. Candidates are encouraged to refer to the websites for regulatory notices and interpretive guidance concerning amendments to the rules and announcements of new rules that may relate to the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. The MSRB produces only the content outline and is not involved with, nor does it endorse, any particular course of study.

**Board of Governors of the Federal Reserve System (Fed)**

<https://www.federalreserve.gov/supervisionreg.htm>

**Commodity Futures Trading Commission (CFTC)**

<https://cftc.gov/LawRegulation/CommodityExchangeAct/index.htm>

**Federal Deposit Insurance Corporation (FDIC)**

<https://www.fdic.gov/regulations/>

**Financial Industry Regulatory Authority (FINRA)**

<http://www.finra.org/industry/rules-and-guidance>

**Municipal Securities Rulemaking Board (MSRB)**

<http://msrb.org/Rules-and-Interpretations/MSRB-Rules.aspx>

<http://msrb.org/Rules-and-Interpretations/Regulatory-Notices.aspx>

**Municipal Market Education for Professionals (MuniEdPro®)**

<http://msrb.org/Regulated-Entities/MuniEdPro.aspx>

**Office of the Comptroller of the Currency (OCC)**

<https://occ.gov/topics/laws-regulations/index-laws-regulations.html>

**Securities and Exchange Commission (SEC)**

<https://www.sec.gov/rules.shtml>

**Securities Industry / Regulatory Council on Continuing Education (CE Council)**

<http://ceccouncil.org/>

## SAMPLE QUESTIONS

The following questions are similar in format and content to questions on the examination. The sample questions, however, are not intended to parallel either the level of difficulty or the subject coverage of the examination. The sample questions are only intended to assist candidates in preparing for the types of multiple-choice questions which will appear on the examination.

1. Moral obligation bonds are secured by which of the following?
  - (A) Unlimited taxes levied by the issuer
  - (B) Double-barreled, paid from taxes and revenues
  - (C) Special assessments and general revenues
  - (D) Non-binding pledge from a governmental body
  
2. The Federal Reserve Board can ease credit by doing which of the following?
  - I. Buying government securities.
  - II. Increasing the discount rate.
  - III. Decreasing the money supply.
  - IV. Lowering the reserve requirement of member banks.
  - (A) I and II
  - (B) I and IV
  - (C) II and III
  - (D) III and IV
  
3. The Securities Investor Protection Corporation (SIPC) protects investors against losses from financial failure of all of the following sellers of municipal bonds EXCEPT:
  - (A) firms dealing only in municipal bonds
  - (B) SEC-regulated dealers
  - (C) municipal issuers
  - (D) FINRA member firms
  
4. For federal tax purposes, the formula for computing taxable-equivalent yields for municipal securities is the tax-exempt yield divided by:
  - (A) the income tax rate
  - (B) the dollar price
  - (C) 100% minus the applicable income tax rate
  - (D) 100% plus the applicable income tax rate
  
5. A municipal securities representative would like to entertain a municipal issuer. Under MSRB rules, what type of entertainment is allowed?
  - (A) Two season tickets to football games played by a professional football team.
  - (B) Two tickets to a local college basketball game.
  - (C) Dinner each week at a local country club.
  - (D) Annual use of a vacation home owned by the representative.

ANSWERS: 1. D, 2. B, 3. C, 4. C, 5. B

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CONTENT OUTLINE



Municipal Securities Rulemaking Board

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## INTRODUCTION

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## THE MUNICIPAL FUND SECURITIES LIMITED PRINCIPAL

The municipal fund securities limited principal has primary responsibility for overseeing the municipal fund securities activities of a broker, dealer or municipal securities dealer.<sup>2</sup> In this capacity, a municipal fund securities limited principal manages, directs or supervises one or more of the following activities:

- underwriting of municipal fund securities;
- trading of municipal fund securities;
- selling municipal fund securities to customers;
- communications with customers about any of the above activities;
- maintaining records on the above activities;
- processing, clearing, and (in the case of securities firms) safekeeping of municipal fund securities; and
- training of principals or representatives.

## THE EXAMINATION

The Municipal Fund Securities Limited Principal Qualification Examination is designed to determine whether an individual meets the MSRB's qualification standards for municipal fund securities limited principals. To do this, the examination measures a candidate's knowledge of MSRB rules, rule interpretations and federal statutory provisions applicable to the activities listed above. It also measures the candidate's ability to apply these rules and interpretations to given fact situations in the context of municipal fund securities activities. In addition to passing this examination, a candidate must also have previously or concurrently qualified as a general securities principal or investment company/variable contracts limited principal.

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<sup>1</sup>The municipal securities principal (Series 53) is also qualified to supervise these responsibilities.

The examination consists of 60 multiple-choice questions assigned to the seven areas of the examination as follows:

Regulatory Structure	5%
Product Knowledge	27%
General Supervision	17%
Fair Practice and Conflicts of Interest	17%
Sales Supervision	18%
Underwriting and Disclosure Obligations	6%
Operations	10%

These questions are further distributed among the various subtopics in a manner that reflects the distribution of subject matter in the content outline. Each question is worth one point, and the passing grade is 70%. Candidates are allowed one and one-half hours to complete the examination. During the administration of the examination, candidates are not allowed to use reference materials.

## CONFIDENTIALITY

In order to ensure that its examinations constitute valid tests of the qualifications of persons who take them, the MSRB has instituted various procedures, in the question-writing as well as the administration phases, which are designed to preserve the confidentiality of the examinations. On several occasions, the MSRB has found it necessary to take legal action, alleging copyright violations, against securities training schools which had used in their training material questions and answers that appeared to have been taken from questions contained in MSRB qualification examinations. In addition, candidates are advised that the practice of "debriefing" persons who have taken a qualification examination may not only give rise to an infringement of the MSRB's copyright but would be a violation of MSRB rules for the candidate.<sup>2</sup>

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  - (ii) *disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;*
  - (iii) *engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or*
  - (iv) *knowingly sign a false certification concerning any such qualification examination.*

## PART 1: REGULATORY STRUCTURE (5% OF TEST QUESTIONS)

- 1.0** Ensure conduct of an ethical municipal securities business.  
 Understand applicability of antifraud provisions mandated under the '34 Act. Understand provisions for enforcement of MSRB rules.  
 Understand prohibitions against employment of manipulative and deceptive devices. Understand provisions of regulations established to ensure investor protection.
- 1.1** **Jurisdiction**
- 111** "Exempted securities" *Securities Act of 1933 ('33 Act), Sect. 3(a)(2)*
- 112** "Municipal security" *Securities Exchange Act of 1934 ('34 Act), Sect. 3(a)(29)*
- 113** Exemption from Investment Company Act of 1940 (*'40 Act*) (*ICA*), *Sect.2(b)*
- 1.2** **MSRB Rulemaking '34 Act, Sect. 15B(b)**
- 1.3** **Enforcement of MSRB Rules**
- 131** Enforcement agencies *'34 Act, Sect. 15B(c)(5); Sect. 15A(b)(2); Sect. 3(a)(34)(A)*
- 132** Compliance examinations *'34 Act, Sect. 15B(c)(7)(A)*
- 1.4** **Securities Investor Protection Corporation (SIPC) SIPA<sup>3</sup> Sect. 5; Sect. 9**
- 141** Purpose of SIPC
- 142** Coverage limitations
- 1.5** **Antifraud**
- 151** Antifraud provisions applicable to all persons, including municipal issuers, brokers, dealers and municipal securities dealers *'34 Act, Sect. 10(b); Sect. 15(c)*
- 152** Antifraud provisions applicable to brokers, dealers and municipal securities dealers **MSRB Rule G-17**
- 153** Fraud and misrepresentations by brokers, dealers and municipal securities dealers  
*'34 Act; SEC Rule 15c1-2*

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<sup>3</sup>Securities Investor Protection Act of 1970—See [www.sipc.org](http://www.sipc.org) for more information.

## PART 2: PRODUCT KNOWLEDGE (27% OF TEST QUESTIONS)

- 2.0 Understand key industry terms.**
- Demonstrate product knowledge of municipal fund securities.
  - Understand the differences between municipal fund securities and registered securities.
  - Understand the differences between municipal fund securities and the underlying investments and the risks associated with both.
  - Demonstrate knowledge and appropriate uses of alternative higher education savings products.
- 2.1 Municipal fund securities *MSRB Rule D-12***
- 2.2 New Products Governed by MSRB Rules**
- 2.3 Product Knowledge**
- 2.3.1 Local Government Investment Pools (LGIP):** *Differences in state law; authorization to invest; formation of pool; investment policy of investor; structure of pool; direction of fund purchases and redemptions on behalf of investors; potential tax consequences for investment of bond proceeds; authorized participants; generally no guarantees by state/county; distribution methods*
- 2.3.2 529 Savings Plans**
- 2.3.2.1** Federal tax law issues: *Established and maintained by a state; contribution limits—excess contributions; limits on investment direction; prohibition on using as security for a loan; rollovers; contributions only in cash; estate and gift tax issues; federal tax-deferred growth; federal tax-free withdrawals for qualified education expenses; taxes and penalties on withdrawals for non-qualified uses; requirements for beneficiary changes; account ownership issues*
- 2.3.2.2** State tax issues: *Possible deductibility of contributions and recapture on withdrawal or rollover; possible tax-free withdrawals*
- 2.3.2.3** Other state law issues: *Generally not guaranteed by state; differences in state law (fee structure—resident vs. non-resident; matching contributions)*
- 2.3.2.4** Issuance and market structure: *State as issuer; primary distributor; selling dealer; method of purchase (direct vs. broker sold); transfer agent*
- 2.3.3 Education savings alternatives (e.g., Coverdell):** *Education Savings Account (CESA), UTMA, 529 pre-paid tuition plans, savings bonds, etc.*

## PART 3: GENERAL SUPERVISION (17% OF TEST QUESTIONS)

- 3.0** Understand qualification and registration requirements for firms and associated persons conducting a municipal fund securities business.  
 Understand requirements to implement, monitor and maintain appropriate systems to ensure compliance with MSRB rules.  
 Understand responsibilities for supervising the sale of municipal fund securities.
- 3.1** **Definitional Rules**
- 311** “Municipal securities dealer” *‘34 Act, Sect. 3(a)(30); Sect. 15B(a)*
- 312** “Bank dealer” **MSRB Rule D-8**
- 313** “Customer” **SEC Rule 15c1-1; MSRB Rule D-9; MSRB Rule G-8(e)**
- 3.2** **Availability of Board rules MSRB Rule G-29**
- 3.3** **Qualification and Registration**
- 331** Broker/dealer and municipal advisor  
**3311** Registration requirements **MSRB Rule A-12(a)**  
**3312** Form A-12 updates and withdrawal **MSRB Rule A-12(j)**  
**3313** Designated contacts **MSRB Rule A-12(f)**  
**3314** Separately identifiable department or division of a bank (definition of municipal securities dealer activities) **MSRB Rule G-1**  
**3315** Requirements to have a minimum number of principals **MSRB Rule G-3(b)(iii); MSRB Rule G-3(b)(iv)(D); MSRB Rule G-3(e)(ii)**
- 332** Associated persons  
**3321** Definitions and qualification requirements:  
**33211** Municipal securities representative **MSRB Rule G-3(a)(i) and (ii)**  
**33212** Municipal securities principals **MSRB Rule G-3(b)(i) and (ii)**  
**33213** Municipal fund securities limited principals **MSRB Rule G-3(b)(iv)(A)-(C)**  
**33214** Municipal securities sales principals **MSRB Rule G-3(c)**  
**33215** Municipal advisor representatives **MSRB Rule G-3(d)**  
**33216** Municipal advisor principals **MSRB Rule G-3(e)**

**3.4 Supervisory Responsibilities**

- 341** Dealer's obligation to supervise ***MSRB Rule G-27(a)***
- 342** Designation of principals
- 3421** Responsible for municipal securities business and activities of associated persons ***MSRB Rule G-27(b)(ii)***
- 3422** Written record of designations ***MSRB Rule G-27(b)(ii)(A)-(B); MSRB Rule G-8(a)(xiv)***
- 3423** Appropriate principal ***MSRB Rule G-27(b)(ii)(C)***
- 343** Written supervisory procedures<sup>4</sup>
- 3431** Duty to establish and enforce ***MSRB Rule G-27(c)(i)***
- 3432** Duty to update and review ***MSRB Rule G-27(c)(iii)***
- 3433** Supervisory controls ***MSRB Rule G-27(f)***

**3.5 Any Recently Enacted Rules and Interpretations Governing General Supervision**

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<sup>4</sup> Requirements for SPECIFIC supervisory procedures are found under the appropriate topics (e.g., "Opening Customer Accounts" and "Review of Correspondence" on page 10; "Customer Complaints" on page 10).

## PART 4: FAIR PRACTICE AND CONFLICTS OF INTEREST (17% OF TEST QUESTIONS)

- 4.0** Understand the impact of political contributions on the dealer's ability to sell municipal fund securities.  
 Ensure fair conduct of municipal fund securities business. Ensure that appropriate disclosures are made to customers.
- 4.1** Political contributions and prohibitions on municipal securities business
- 4.1.1** Definitions **MSRB Rule G-37(g)**
  - 4.1.2** Period of prohibition; *de minimis* exception **MSRB Rule G-37(b)**
  - 4.1.3** Prohibition against solicitations **MSRB Rule G-37(c) and(d)**
  - 4.1.4** Requirements to disclose political contributions and municipal securities business  
**MSRB Rule G-37(e) and (f)**
  - 4.1.5** Records concerning political contributions **MSRB Rule G-8(a)(xvi)**
- 4.2** Solicitation of municipal securities business
- 4.2.1** Definitions **MSRB Rule G-38(b)**
  - 4.2.2** Prohibited payments **MSRB Rule G-38(a)**
  - 4.2.3** Records concerning consultants **MSRB Rule G-8(a)(xviii)**
- 4.3** Conduct of Business
- 4.3.1** Conduct of Municipal Securities and Municipal Advisory Activities **MSRB Rule G-17**
  - 4.3.2** Prices and commissions **MSRB Rule G-30(b)**
  - 4.3.3** Control relationships
  - 4.3.3.1** Definition **MSRB Rule G-22(a)**
  - 4.3.3.2** Disclosure to customers **MSRB Rule G-22(c)**
  - 4.3.4** Gifts, gratuities and non-cash compensation **MSRB Rule G-20; MSRB Rule G-8(a)(xvii)**

- 435** Advertising
- 4351** Definition ***MSRB Rule G-21(a)(i)***
- 4352** Professional advertisements ***MSRB Rule G-21(b)***
- 4353** Product advertisements ***MSRB Rule G-21(c)***
- 4354** Approval by a principal ***MSRB Rule G-21(f)***
- 4355** Municipal fund security advertisements ***MSRB Rule G-21(e)***

**4.4 Any Recently Enacted Rules and Interpretations Governing Fair Practice and Conflicts of Interest**

## PART 5: SALES SUPERVISION (18% OF TEST QUESTIONS)

**5.0 Understand the review and approval process for opening and maintenance of customer accounts.**

Understand requirements for communications with customers. Understand suitability requirements when recommending investments. Guard against improper and/or prohibited activities.

Understand rules regarding review, handling and recordkeeping of customer complaints.

### **5.1 Opening Customer Accounts**

**5.1.1 Requirement to obtain customer account information *MSRB Rule G-19; MSRB Rule G-8(a)(xi)***

**5.1.2 Review and approval by a principal *MSRB Rule G-27(c)(i)(G)(1)***

**5.1.3 Transactions with employees and partners of other municipal securities professionals *MSRB Rule G-28***

### **5.2 Communications with Customers**

**5.2.1 Review of correspondence *MSRB Rule G-27(e)***

### **5.3 Suitability**

**5.3.1 Knowledge of customer *MSRB Rule G-19 [Supp.04, .06]***

**5.3.2 Suitability of recommendations *MSRB Rule G-19[Supp.05]***

### **5.4 Improper Use of Customer Assets**

**5.4.1 Quantitative suitability *MSRB Rule G-19[Supp.05(c)]***

**5.4.2 Guarantees against loss *MSRB Rule G-25(b)***

**5.4.3 Sharing in profits or losses *MSRB Rule G-25(c)***

### **5.5 Customer Complaints**

**5.5.1 Review by a principal *MSRB Rule G-27(c)(i)(B)***

**5.5.2 Definition — recordkeeping requirements *MSRB Rule G-8(a)(xii)***

**5.5.3 Investor and municipal advisory client education and protection *MSRB Rule G-10***

### **5.6 Any Recently Enacted Rules and Interpretations Governing Sales Supervision**

## PART 6: UNDERWRITING AND DISCLOSURE OBLIGATIONS (6% OF TEST QUESTIONS)

- 6.0     Understand supervisory obligations for underwriters, including performance of due diligence.  
Understand timeframes associated with disclosure of required information.  
Understand the distinction between and responsibilities of primary distributors (underwriters) and selling dealers (selling group members).
  
- 6.1     **Obligations of Municipal Underwriters**
  - 611    “Reasonable basis” interpretation under SEC Rules *SEC Release No. 34-26100, Part III*
  - 612    Availability and review of official statements *SEC Rule 15c2-12*
  - 613    Submission of official statements, advance refunding documents and other required information to EMMA® *MSRB Rule G-32(b); MSRB Rule G-8(a)(xv)*
  
- 6.2     **Disclosures to Customers**
  - 621    Time of trade disclosure *MSRB Rule G-47*
  - 622    Delivery of official statement to customer and other disclosure requirements  
*MSRB Rule G-32(a); MSRB Rule G-8(a)(xiii)*
  - 623    Definitions *MSRB Rule G-32(d)*
  
- 6.3     **Any Recently Enacted Rules and Interpretations Governing Underwriting and Disclosure Obligations**

## PART 7: OPERATIONS (10% OF TEST QUESTIONS)

- 7.0** Understand confirmation and periodic statement requirements.  
 Understand recordkeeping requirements related to supervision of operations.
- 7.1** Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers
- 7.1.1** Customer confirmations **MSRB Rule G-15(a)(i) –(vii)**
  - 7.1.2** Periodic statements **MSRB Rule G-15(a)(viii)(B)(1)**
- 7.2** Customer Account Transfers **MSRB Rule G-26**
- 7.3** Books and Records to be Made by Brokers, Dealers, and Municipal Securities Dealers and Municipal Advisors
- 7.3.1** Books and records required to be made<sup>5</sup>
    - 7.3.1.1** Records of original entry **MSRB Rule G-8(a)(i)**
    - 7.3.1.2** Account records **MSRB Rule G-8(a)(ii)**
    - 7.3.1.3** Securities records **MSRB Rule G-8(a)(iii)**
    - 7.3.1.4** Subsidiary records **MSRB Rule G-8(a)(iv)**
    - 7.3.1.5** Records of agency transactions **MSRB Rule G-8(a)(vi)**
    - 7.3.1.6** Copies of confirmations and certain other notices to customers **MSRB Rule G-8(a)(ix)**
    - 7.3.1.7** Manner in which books and records are to be **MSRB Rule G-8(b)**
    - 7.3.1.8** Non-clearing brokers and dealers **MSRB Rule G-8(c)**
    - 7.3.1.9** Introducing brokers and dealers **MSRB Rule G-8(d)**
    - 7.3.1.10** Transactions in municipal fund securities; books and records maintained by transfer agents **MSRB Rule G-8(g)**
  - 7.3.2** Preservation of books and records
    - 7.3.2.1** Period of time records must be preserved **MSRB Rule G-9(a) through G-9(c)**
    - 7.3.2.2** Accessibility and availability **MSRB Rule G-9(d)**
    - 7.3.2.3** Method of record retention **MSRB Rule G-9(e)**
  - 7.3.3** Compliance with recordkeeping rules
    - 7.3.3.1** Records to be made **MSRB Rule G-8(f); SEC Rule 17a-3**
    - 7.3.3.2** Preservation of records **MSRB Rule G-9(g); SEC Rule 17a-4**
- 7.4** Any Recently Enacted Rules and Interpretations Governing Operations

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<sup>5</sup>Other required books and records are listed under specific topics.

## REFERENCES

Listed below are government and self-regulatory organization websites that provide information candidates may find useful in preparing for the exam. In addition to information about rules, the organizations listed may publish glossaries of terms, explanations of products, and compliance procedures. Candidates are encouraged to refer to the websites for regulatory notices and interpretive guidance concerning amendments to the rules and announcements of new rules that may relate to the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. The MSRB produces only the content outline and is not involved with, nor does it endorse, any particular course of study.

**Board of Governors of the Federal Reserve System (Fed)**

<https://www.federalreserve.gov/supervisionreg.htm>

**Commodity Futures Trading Commission (CFTC)**

<https://cftc.gov/LawRegulation/CommodityExchangeAct/index.htm>

**Federal Deposit Insurance Corporation (FDIC)**

<https://www.fdic.gov/regulations/>

**Financial Industry Regulatory Authority (FINRA)**

<http://www.finra.org/industry/rules-and-guidance>

**Municipal Securities Rulemaking Board (MSRB)**

<http://msrb.org/Rules-and-Interpretations/MSRB-Rules.aspx>

<http://msrb.org/Rules-and-Interpretations/Regulatory-Notices.aspx>

**Municipal Market Education for Professionals (MuniEdPro<sup>®</sup>)**

<http://msrb.org/Regulated-Entities/MuniEdPro.aspx>

**Office of the Comptroller of the Currency (OCC)**

<https://occ.gov/topics/laws-regulations/index-laws-regulations.html>

**Securities and Exchange Commission (SEC)**

<https://www.sec.gov/rules.shtml>

**Securities Industry / Regulatory Council on Continuing Education (CE Council)**

<http://ceccouncil.org/>

## SAMPLE QUESTIONS

The following questions are similar in format and content to questions on the examination. The sample questions, however, are not intended to parallel either the level of difficulty or the subject coverage of the examination. The sample questions are only intended to assist candidates in preparing for the types of multi-choice questions that will appear on the examination.

1. Which of the following accurately describes how municipal fund securities are regulated?
  - A. They are not federally regulated.
  - B. Subject only to state laws.
  - C. They are subject to federal anti-fraud regulation.
  - D. Subject only to MSRB rules.
  
2. Under MSRB rules, a dealer must evaluate its written supervisory procedures at least:
  - A. Annually
  - B. every two years
  - C. every three years
  - D. every six years
  
3. Under MSRB rules, which two of the following would be considered material facts that should be disclosed by the dealer to a customer in the recommendation of a 529 savings plan?
  - I. Potential tax benefits of an in-state plan purchase
  - II. Effective yield of the plan
  - III. Total return of the plan
  - IV. Available sales charge discounts
  - A. I and II
  - B. I and IV
  - C. II and III
  - D. III and IV
  
4. The responsibilities of a "municipal securities sales limited representative" include which of the following activities?
  - A. Sales to and purchases from customers of municipal securities
  - B. Advisory or consultant services for issuers
  - C. Underwriting, trading or sales of municipal securities
  - D. Research or investment advice regarding municipal securities
  
5. A registered representative of a dealer of 529 savings plans recommends State Y's 529 program to a customer who resides in State Y. In making his recommendation, the RR should consider all of the following tax factors EXCEPT
  - A. Tax-deferred growth
  - B. State income tax deductions may be available for contributions made to the State Y plan
  - C. Tax-free withdrawals for qualified education expenses
  - D. Federal income tax deductions may be available for contributions made to the State Y plan

ANSWERS 1. C, 2. A, 3. B, 4. A, 5. D

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# Municipal Securities Principal Qualification Examination (Series 53)

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CONTENT OUTLINE



Municipal Securities Rulemaking Board

# Municipal Securities Principal Qualification Examination (Series 53)

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## INTRODUCTION

This content outline is intended to help candidates prepare for the Municipal Securities Principal Qualification Examination (Series 53) by providing relevant information about the examination itself and sharing pertinent information about the content areas that are covered. The sample questions that appear on page 17 are similar to the types of multiple-choice questions that will appear in the examination. In addition, government and other self-regulatory organization websites that may be useful in preparing for the examination are provided at the end of the outline.

The questions used in the examination are reviewed and updated on a regular basis and reflect current market practices. Questions that test new rules or amendments will be included in the examination after the effective date of the rule or rule change. Existing questions on rules or portions of rules that have been deleted will be removed from the examination prior to the effective date of the amendment. The Series 53 exam is developed and maintained by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization that establishes rules for municipal securities dealers and municipal advisors.

## THE MUNICIPAL SECURITIES PRINCIPAL

The municipal securities principal bears primary responsibility for overseeing the municipal securities activities of a securities firm or bank dealer. In this capacity, a municipal securities principal manages, directs or supervises one or more of the following activities:

- underwriting of municipal securities;
- trading of municipal securities;
- buying or selling municipal securities from or to customers;
- rendering of financial advisory or consultant services to issuers of municipal securities;
- communications with customers about any of the above activities;
- maintaining records on the above activities;
- processing, clearing, and (in the case of securities firms) safekeeping of municipal securities; and
- training of principals or representatives.

## THE EXAMINATION

The Municipal Securities Principal Qualification Examination is designed to determine whether an individual meets the MSRB's qualification standards for municipal securities principals. To do this, the examination measures a candidate's knowledge of MSRB rules, rule interpretations and federal statutory provisions applicable to the activities listed above. It also measures the candidate's ability to apply these rules and interpretations to given fact situations.

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The examination consists of 100 multiple-choice questions assigned to the six areas of the examination as follows:

Federal Regulations	4%
General Supervision	23%
Sales Supervision	25%
Origination and Syndication	23%
Trading	10%
Operations	15%

These questions are further distributed among the various subtopics in a manner which reflects the distribution of subject matter in the study outline. Each question is worth one point, and the passing grade is 70%. Candidates are allowed three and one-half hours for each testing session. During the administration of the examination, candidates are not allowed to use reference materials.<sup>1</sup>

## CONFIDENTIALITY

In order to ensure that its examinations constitute valid tests of the qualifications of persons who take them, the MSRB has instituted various procedures, in the question-writing as well as the administration phases, which are designed to preserve the confidentiality of the examinations. On several occasions, the MSRB has found it necessary to take legal action, alleging copyright violations, against securities training schools that had used in their training material questions and answers that appeared to have been taken from questions contained in MSRB qualification examinations. In addition, candidates are advised that the practice of "debriefing" persons who have taken a qualification examination may not only give rise to an infringement of the MSRB's copyright but would be a violation of MSRB rules for the candidate.<sup>3</sup>

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<sup>1</sup>The examination is administered by FINRA on the PROCTOR system. For further information on application and administration procedures for MSRB examinations, please contact FINRA at 301-590-6500, or refer to the FINRA website at [www.finra.org](http://www.finra.org).

<sup>2</sup>Rule G-3(f) on "Confidentiality of Qualification Examinations" states that:

*No associated person of a broker, dealer, municipal securities dealer or municipal advisor shall:*

- (i) *in the course of taking a qualification examination required by this rule receive or give assistance of any nature;*
- (ii) *disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;*
- (iii) *engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or*
- (iv) *knowingly sign a false certification concerning any such qualification examination.*

## PART 1: FEDERAL REGULATIONS (4% OF TEST QUESTIONS)

- 1.0** Ensure that appropriate ethical practices govern the conduct of municipal securities business.  
 Understand the regulatory agencies that oversee municipal securities business. Understand the rulemaking process.  
 Demonstrate understanding of the protections offered to investors by SIPC. Understand the applicability of the SEC's antifraud statutes.

**1.1** **Securities Exchange Act of 1934 '34 Act, Section 10(b); Section 15(c)**

- 1.1.1** Antifraud provisions applicable to all persons, including municipal issuers, dealers and municipal securities dealers
- 1.1.2** Regulatory framework for the municipal securities industry
- 1.1.21** Rulemaking process: Enforcement agencies '**34 Act, Section 15B(c)(5); Section 15A(b)(2); and Section 3(a)(34)(A)**'
- 1.1.22** Compliance examinations '**34 Act, Section 15B(c)(7)(A) and MSRB Rule G- 16**'<sup>3</sup>
- 1.2** **Rules of the Securities and Exchange Commission**
- 1.2.1** Dodd-Frank Wall Street Financial Reform and Consumer Protection Act
- 1.2.2** Employment of manipulative and deceptive devices by brokers, dealers, or municipal securities dealers; by any person, including municipal issuers, brokers, dealers and municipal securities dealers  
**SEC Rules 10b- 3 and 10b- 5**
- 1.3** **Securities Investor Protection Corporation (SIPC) SIPA<sup>4</sup> Section 5 and Section 9**

- 1.3.1** Purpose of SIPC
- 1.3.2** Coverage limitations

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<sup>3</sup>All references in the study outline, unless otherwise noted, are to MSRB rules (e.g., A-14, D-8 or G-16).

<sup>4</sup>Securities Investor Protection Act of 1970 — a recommended source of information on these subjects is the SIPC brochure entitled "How SIPC Protects You," which is available at [www.sipc.org](http://www.sipc.org).

## PART 2: GENERAL SUPERVISION (23% OF TEST QUESTIONS)

- 2.0** Ensure an appropriate level of understanding of the general supervisory responsibilities of a municipal securities principal.
- Understand the rules that govern the overall municipal securities business as opposed to specific areas within the business.
- Ensure knowledge of key industry terms as they are employed in MSRB rules.
- Ensure knowledge of the registration, qualification and continuing education requirements of various categories of municipal securities professionals.
- Implement and monitor appropriate systems and procedures to comply with regulations governing municipal securities activities.
- Ensure that municipal securities activities are conducted fairly with appropriate disclosures made to customers.
- Understand requirements of associated persons and firms regarding certain responsibilities that are general in nature including solicitation of municipal securities business, gifts, and political contributions.
- 2.1** **Definitional rules:**
- “Bank dealer” **MSRB Rule D- 8**
- “Customer” **SEC rule 15c1- 1; MSRB Rule D- 9**
- “Discretionary account” **MSRB Rule D- 10**
- “Associated person” **MSRB Rule D- 11**
- “Municipal fund security” **MSRB Rule D- 12**
- “Municipal advisory activities” **D- 13**
- “Sophisticated Municipal Market Professional” (SMMP) **MSRB Rule D- 15**
- 2.2** **Qualification and Registration**
- 221** Broker/dealer: SEC registration requirements ‘**34 Act, Sects. 15(a)** and **15B(a)**
- 2211** Registration **MSRB Rule A- 12**
- 2212** Assessments for Municipal Advisor Professionals **MSRB Rule A- 11**
- 2213** Separately identifiable department or division of a bank (definition of municipal securities dealer activities) **MSRB Rule G- 1**
- 2214** Standards of professional qualification **MSRB Rule G- 2**
- 2215** Professional qualification requirements
- 22151** Municipal securities representatives and municipal securities sales limited representatives **MSRB Rule G- 3(a)(i)** and **(ii)**
- 22152** Limited representative — investment company and variable contracts products **MSRB Rule G- 3(a)(i)(C)**
- 22153** Municipal securities principals **MSRB Rule G- 3(b)(i)** and **(ii)**

- 22154** Municipal fund securities limited principals **MSRB Rule G- 3(b)(iv)(A)** and **(B)**
- 22155** Municipal securities sales principals **MSRB Rule G- 3(c)**
- 22156** Municipal advisor representative **MSRB Rule G- 3(d)**
- 22157** Municipal advisor principal **MSRB Rule G- 3(e)**
- 2216** Minimum requirements to have a certain number of principals  
**MSRB Rule G- 3(b)(iii)** and **(iv)(D); MSRB Rule G- 3(e)(ii)**
- 222** Associated persons
- 2221** Definition of associated person **MSRB Rule G- 7(a); MSRB Rule D- 11**
- 2222** Information to be compiled on each associated person **MSRB Rule G- 7(b)**
- 2223** Verification, maintenance, preservation and filing of such information  
**MSRB Rule G- 7(c)** through **MSRB Rule G- 7(h); MSRB Rule G- 9; SEC 17a- 4**
- 2224** Continuing education requirements **MSRB Rule G- 3(i)**
- 2225** Confidentiality of qualification examinations **MSRB Rule G- 3(f)**
- 223** Disqualification: Statutory disqualifications **MSRB Rule G- 4**  
Disciplinary actions by appropriate regulatory agencies **MSRB Rule G- 5(a)**  
Remedial notices by registered securities associations **MSRB Rule G- 5(b)**

### 2.3 Supervisory Responsibilities

- 231** Dealer's obligation to supervise **MSRB Rule G- 27(a)**
- 232** Designation of principals: Responsibility for municipal securities business and activities of associated persons **MSRB Rule G-27(b)**  
Written record of designations **MSRB Rule G- 27(b)(ii)(B); MSRB Rule G- 8(a)(xiv)**  
Appropriate principal **MSRB Rule G- 27(b)(ii)(C)**
- 233** Written supervisory procedures<sup>5</sup> **MSRB Rule G- 27(c)**
- 234** Duty to establish, maintain and enforce supervisory control policies and written procedures **MSRB Rule G- 27(f)**
- 235** Internal inspections **MSRB Rule G- 27(d)**
- 236** Availability of Board rules **MSRB Rule G- 29**
- 237** Anti-money laundering compliance program **MSRB Rule G- 41**

### 2.4 Conduct of Business

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<sup>5</sup> Requirements for SPECIFIC supervisory procedures are found under the appropriate topics, i.e., "Opening Customer Accounts" and "Communications with Customers" on p. 8, also "Discretionary Accounts" and "Customer Complaints" on p. 9.

- 241 Fair practice**
- 2411** Conduct of municipal securities and municipal advisory activities **MSRB Rule G- 17**
- 2412** Use of ownership information obtained in a fiduciary or agency capacity **MSRB Rule G- 24**
- 2413** Improper use of assets **MSRB Rule G- 25(a)**
- 242 Control relationships**
- 2421** Definition of control relationship **MSRB Rule G- 22(a)**
- 2422** Disclosure to customers **MSRB Rule G- 22(c)**
- 243 Gifts, gratuities, non-cash compensation and expenses of issuance**
- 2431** General limitation on value of gifts and gratuities **MSRB Rule G- 20(a)**
- 2432** Normal business dealings and compensation for services **MSRB Rule G- 20(b) and (c)**
- 2433** Non-cash compensation in connection with primary offerings **MSRB Rule G- 20(d)**
- 2434** Definitions: “non-cash compensation;” “cash compensation;” “offeror” and “primary offering” **MSRB Rule G- 20(e)**
- 2435** Records concerning compliance with Rule G-20 **MSRB Rule G- 8(a)(xvii)**
- 244 Political contributions and prohibition on municipal securities business**
- 2441** Definitions including “municipal finance professional;” “municipal securities business” and “issuer official” **MSRB Rule G- 37(g)**
- 2442** Ban on municipal securities business; de minimis exemption **MSRB Rule G- 37(b)**
- 2443** Prohibition on soliciting and coordinating contributions **MSRB Rule G- 37(c)**
- 2444** Disclosure to Board and records concerning political contributions and prohibitions on municipal securities business **MSRB Rule G- 37(e), (f); MSRB Rule G- 8(a)(xvi)**
- 245 Solicitation of municipal securities business**
- 2451** Definitions, including “solicitation;” “affiliated person;” and “affiliated company” **MSRB Rule G- 38(b)**
- 2452** Prohibited payments **MSRB Rule G- 38(a)**
- 2453** Transitional payments **MSRB Rule G- 38(c)**
- 246 Advertising**
- 2461** Definitions; general standard for advertisements **MSRB Rule G- 21(a)(iii)**
- 2462** Professional advertisements **MSRB Rule G- 21(b)**
- 2463** Product advertisements **MSRB Rule G- 21(c)**
- 2464** Product advertisements for municipal fund securities (including 529 savings plans) **MSRB Rule G- 21(e)**
- 2465** Approval by a principal **MSRB Rule G- 21(f)**
- 2.5 Any Recently Enacted Rules Governing General Supervision**

## PART 3: SALES SUPERVISION (25% OF TEST QUESTIONS)

- 3.0** Ensure knowledge of the various supervisory tasks and regulations that apply to the supervision of salespersons within the municipal securities business.
- Understand rules, record keeping responsibilities and review and approvals needed for the opening and maintenance of customer accounts.
- Demonstrate knowledge of the requirements that govern all types of communications with customers.
- Develop practical knowledge of what investments are suitable for customers; understand suitability rules.
- Understand unique requirements and supervisory procedures that relate to discretionary accounts.
- Understand the sales related activities that are deemed improper and/or prohibited.
- Understand rules governing the review, recording and handling of customer complaints.
- 3.1** **Opening Customer Accounts**
- 3.1.1** Requirement to obtain customer account information ***MSRB Rule G- 19***
- 3.1.2** Review and approval by a principal ***MSRB Rule G- 27(c)(i)(G)(1)***
- 3.1.3** Recordkeeping requirement ***MSRB Rule G- 8(a)(xi)***
- 3.1.4** Transactions with employees and partners of other municipal securities professionals  
 Account instructions ***MSRB Rule G- 28(a)***  
 Account transactions ***MSRB Rule G- 28(b)***  
 Exemption for municipal fund securities ***MSRB Rule G- 28(c)***
- 3.2** **Communications with Customers**
- 3.2.1** Review and retention of correspondence ***MSRB Rule G- 27(e)***
- 3.2.2** Telemarketing ***MSRB Rule G- 39***
- 3.2.3** Tape recording of conversations ***MSRB Rule G- 27(c)(ii)***
- 3.3** **Suitability**
- 3.3.1** Knowledge of customer ***MSRB Rule G- 19 [Supp..04]***
- 3.3.2** Suitability of recommendations and transactions ***MSRB Rule G- 19***

- 333** Time of trade disclosure ***MSRB Rule G- 47***
- 334** Transactions with Sophisticated Municipal Market Professionals (SMMP) ***MSRB Rule G- 48***
- 3.4 Supervisory Concerns**
- 341** Quantitative suitability ***MSRB Rule G- 19 [Supp.05]***
- 342** Guarantees against loss ***MSRB Rule G- 25(b)***
- 343** Sharing in profits or losses ***MSRB Rule G-25(c)***
- 344** Prohibition against soliciting and coordinating political contributions; and circumvention of ***MSRB Rule G- 37(c) and(d)***
- 345** Reciprocal dealings with municipal securities investment companies ***MSRB Rule G- 31***
- 3.5 Discretionary Accounts**
- 351** Control relationships ***MSRB Rule G- 22(b)***
- 352** Approval of transactions ***MSRB Rule G- 27(c)(i)(G)(2)***
- 3.6 Customer Complaints**
- 361** Review by a principal ***G- 27(c)(i)(B)***
- 362** Recordkeeping requirement ***MSRB Rule G- 8(a)(xii)***
- 363** Investor and municipal advisory client education and protection ***MSRB Rule G- 10***
- 3.7 Any Recently Enacted Rules Governing Sales Supervision**

## PART 4: ORIGINATION AND SYNDICATION (23% OF TEST QUESTIONS)

- 4.0** Demonstrate understanding of the activities required of a supervisory role related to the origination and syndication of new issue municipal securities in both financial advisory and underwriting roles.
- Understand a dealer's obligations when serving as a financial advisor to an issuer. Define advisory relationship.
- Understand requirements relating to the documenting of the advisory relationship.
- Understand required disclosures and responsibilities in connection with official statements, both as financial advisor and underwriter.
- Understand order types and disclosure of orders.
- Understand administration rules relating to role of lead manager of a syndicate. Understand timeframes associated with various responsibilities.
- 4.1 Activities of Financial Advisors**
- 411** Purpose of financial advisory rule and applicability of state or local law ***MSRB Rule G- 23(a), (f)***
- 412** Financial advisory relationship ***MSRB Rule G- 23(b)***
- 413** Agreement with respect to financial advisory relationship ***MSRB Rule G- 23(c)***
- 414** Prohibition on engaging in underwriting activities ***MSRB Rule G- 23(d)***
- 415** Remarketing activities ***MSRB Rule G- 23(e)***
- 416** Preparation of official statement by financial advisors ***MSRB Rule G- 32(c)***
- 4.2 Primary Offering Practices**
- 421** Obligations of municipal underwriters under SEC rules "Reasonable basis" interpretation ***SEC Release No. 34- 26100, Part III***  
Availability and review of official statements ***SEC rule 15c2- 12***
- 422** New issue syndicate practices
- 4221** Definitions ***MSRB Rule G- 11(a)***
- 4222** Disclosure of capacity ***MSRB Rule G- 11(b)***
- 4223** Confirmations of sale ***MSRB Rule G- 11(c)***
- 4224** Disclosure of group orders ***MSRB Rule G- 11(d)***
- 4225** Priority provisions ***MSRB Rule G- 11(e)***

- 4226** Communications relating to issuer syndicate requirements, priority provisions and order period ***MSRB Rule G- 11(f)***
- 4227** Designations and allocation of securities ***MSRB Rule G- 11(g)***
- 4228** Disclosure of syndicate expenses and other information ***MSRB Rule G- 11(h)***
- 4229** Retail order period and required disclosures ***MSRB Rule G- 11(k)***
  
- 423** Disclosures in connection with primary offerings
- 4231** Customer disclosure requirements ***MSRB Rule G- 32(a)***
- 4232** Underwriter submissions to Electronic Municipal Market Access (EMMA®) ***G- 32(b)***
- 4233** Definitions ***MSRB Rule G- 32(d)***
  
- 424** New issue advertisements ***MSRB Rule G- 21(d)***
  
- 425** CUSIP numbers and new issue requirements
- 4251** New issue securities ***MSRB Rule G- 34(a)***
- 4252** Exemptions ***MSRB Rule G- 34(c)***
  
- 426** Syndicate administration
- 4261** Underwriting assessments ***MSRB Rule A- 13(a), (b)***
- 4262** Prohibition on charging fees to issuers ***MSRB Rule A- 13(e)***
- 4263** Definition of primary offering ***MSRB Rule A- 13(f)***
- 4264** Records concerning primary offerings ***MSRB Rule G- 8(a)(viii)***
- 4265** Records concerning disclosures in connection with primary offerings pursuant to Rule G-32 ***G- 8(a)(xiii)***
- 4266** Settlement of syndicate or similar account ***MSRB Rule G- 11(i)***
- 4267** Payments of designations ***MSRB Rule G- 11(j)***
  
- 4.3** **Any Recently Enacted Rules Governing Origination and Syndication**

## PART 5: TRADING (10% OF TEST QUESTIONS)

- 5.0** Ensure understanding of the rules and regulations related to supervision of trading of municipal securities.  
 Demonstrate understanding of the rules related to quotations of municipal securities. Understand record keeping responsibilities for principal and agency transactions.  
 Understand procedures and timeframes for reporting every municipal securities transaction to the MSRB or its designee.  
 Understand responsibilities related to the assignment of CUSIP numbers in secondary market trading.  
 Understand the prohibition against dissemination of fictitious trade reports.
- 5.1 Quotations**
- 5.1.1** Applicability of the rule and definition of quotation ***MSRB Rule G- 13(a)***
- 5.1.2** Bona fide quotations ***MSRB Rule G- 13(b)***
- 5.1.3** Multiple markets in the same securities ***MSRB Rule G- 13(c)***
- 5.2 Execution of Transactions**
- 5.2.1** Best execution ***MSRB Rule G- 18***
- 5.2.2** Broker's brokers ***MSRB Rule G- 43***
- 5.2.3** Prices and commissions Principal transactions ***MSRB Rule G- 30(a)*** Agency transactions ***MSRB Rule G- 30(b)***
- 5.2.4** Time of trade disclosure ***MSRB Rule G- 47***
- 5.3 Reports of Sales or Purchases**
- 5.3.1** Prohibition against dissemination of false trade reports ***MSRB Rule G- 14(a)***
- 5.3.2** Transaction reporting requirements and RTRS procedures ***MSRB Rule G- 14(b)***
- 5.3.3** Definitions relating to reporting requirements for specific types of transactions ***MSRB Rule G- 14, RTRS Procedures, Sect. (d)***
- 5.3.4** Transaction and technology assessments ***MSRB Rule A- 13(c)***

- 5.4 Secondary Market Securities *MSRB Rule G- 34(b)*
- 5.5 Books and Records to be Made by Brokers, Dealers and Municipal Securities Dealers and Municipal Advisors
  - 551 Records for agency transactions *MSRB Rule G- 8(a)(vi)*
  - 552 Records for transactions as principal *MSRB Rule G- 8(a)(vii)*
  - 553 Records of secondary market trading account transactions *MSRB Rule G- 8(a)(xxiv)*
  - 554 Broker's brokers activities *MSRB Rule G- 8(a)(xxv)*
- 5.5.5 Records for alternative trading systems *G- 8(a)(xxvi)*
- 5.6 Any Recently Enacted Rules Governing Trading

## PART 6: OPERATIONS (15% OF TEST QUESTIONS)

- 6.0** Ensure understanding of the rules and record keeping requirements related to the operational aspects of supervision of the municipal securities business.
- Understand the items required to confirm transactions. Understand the settlement process for trades.
- Understand the mechanics of delivery of securities and the requirements for handling trade or settlement problems.
- Understand procedures and timeframes for reporting of municipal securities trades to the MSRB.
- Demonstrate knowledge of various types of records that are required to be maintained, and the timeframes required for their maintenance.
- Understand requirements and rules governing the transfer of customer accounts to other firms.
- 6.1 Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers**
- 6.1.1** Confirmation requirements
- 6.1.1.1** Customer confirmations ***MSRB Rule G- 15(a)***
- 6.1.1.2** Interdealer confirmations ***MSRB Rule G- 12(c)***
- 6.1.1.3** Comparison and verification of interdealer confirmations; unrecognized transactions ***MSRB Rule G- 12(d)***
- 6.1.2** Settlement dates ***MSRB Rule G- 15(b)*** and ***MSRB Rule G- 12(b)***
- 6.1.3** Delivery of securities
- 6.1.3.1** Deliveries to customers ***MSRB Rule G- 15(c)***
- 6.1.3.2** Customer DVP/RVP transactions ***MSRB Rule G- 15(d)***
- 6.1.3.3** Interdealer deliveries ***MSRB Rule G- 12(e)***
- 6.1.3.4** Minimum denominations ***MSRB Rule G- 15(f)***
- 6.1.3.5** Forwarding official communications ***MSRB Rule G- 15(g)***
- 6.1.4** Transaction reporting
- 6.1.4.1** Use of automated comparison, clearance and settlement systems ***MSRB Rule G- 12(f)***
- 6.1.4.2** Transaction reporting procedures ***MSRB Rule G- 14(b)***
- 6.1.5** Interest payment claims
- 6.1.5.1** Customer claims ***MSRB Rule G- 15(e)***
- 6.1.5.2** Interdealer claims ***MSRB Rule G- 12(l)***

- 6.1.6** Rejections and reclamations ***MSRB Rule G- 12(g)***
- 6.1.7** Close-outs ***MSRB Rule G- 12(h)***
- 6.2 Books and Records**
- 6.2.1** Books and records required to be made<sup>7</sup>
- 6211** Records of original entry ***MSRB Rule G- 8(a)(i)***
- 6212** Account records ***MSRB Rule G- 8(a)(ii)***
- 6213** Securities records ***MSRB Rule G- 8(a)(iii)***
- 6214** Subsidiary records ***MSRB Rule G- 8(a)(iv)***
- 6215** Records of put options and repurchase agreements ***MSRB Rule G- 8(a)(v)***
- 6216** Copies of confirmations and certain other notices to customers ***MSRB Rule G- 8(a)(ix)***
- 6217** Financial records specified by SEC rules ***MSRB Rule G- 8(a)(x)***
- 6.2.2** Manner in which books and records are to be maintained ***MSRB Rule G- 8(b)***
- 6.2.3** Non-clearing brokers and dealers ***MSRB Rule G- 8(c)***
- 6.2.4** Introducing brokers and dealers ***MSRB Rule G- 8(d)***
- 6.2.5** Books and records maintained by transfer agents for municipal fund securities transactions ***MSRB Rule G- 8(g)***
- 6.2.6** Definition of customer ***MSRB Rule G- 8(e)***
- 6.2.7** Compliance with SEC rules ***MSRB Rule G- 8(f)***
- 6.2.8** Preservation of records
- Period of time records must be preserved ***MSRB Rule G- 9(a)*** through ***MSRB Rule G- 9(c)***
- Accessibility and availability ***MSRB Rule G- 9(d)***
- Method of record retention ***MSRB Rule G- 9(e)***
- Effect of lapse in dealer's registration ***MSRB Rule G- 9(f)***
- Requirements of SEC rules ***MSRB Rule G- 9(g)***
- 6.3 Customer Account Transfers *MSRB Rule G- 26***
- 6.4 Calculations (general knowledge) *MSRB Rule G- 33***
- 6.5 Any Recently Enacted Rules Governing Operations**

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<sup>7</sup>Other required books and records are listed under specific topics.

## REFERENCES

Listed below are government and self-regulatory organization websites that provide information candidates may find useful in preparing for the exam. In addition to information about rules, the organizations listed may publish glossaries of terms, explanations of products, and compliance procedures. Candidates are encouraged to refer to the websites for regulatory notices and interpretive guidance concerning amendments to the rules and announcements of new rules that may relate to the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. The MSRB produces only the content outline and is not involved with, nor does it endorse, any particular course of study.

**Board of Governors of the Federal Reserve System (Fed)**

<https://www.federalreserve.gov/supervisionreg.htm>

**Commodity Futures Trading Commission (CFTC)**

<https://cftc.gov/LawRegulation/CommodityExchangeAct/index.htm>

**Federal Deposit Insurance Corporation (FDIC)**

<https://www.fdic.gov/regulations/>

**Financial Industry Regulatory Authority (FINRA)**

<http://www.finra.org/industry/rules-and-guidance>

**Municipal Securities Rulemaking Board (MSRB)**

<http://msrb.org/Rules-and-Interpretations/MSRB-Rules.aspx>

<http://msrb.org/Rules-and-Interpretations/Regulatory-Notices.aspx>

**Municipal Market Education for Professionals (MuniEdPro®)**

<http://msrb.org/Regulated-Entities/MuniEdPro.aspx>

**Office of the Comptroller of the Currency (OCC)**

<https://occ.gov/topics/laws-regulations/index-laws-regulations.html>

**Securities and Exchange Commission (SEC)**

<https://www.sec.gov/rules.shtml>

**Securities Industry / Regulatory Council on Continuing Education (CE Council)**

<http://ceccouncil.org/>

## SAMPLE QUESTIONS

The following questions are similar in format and content to questions on the examination. The sample questions, however, are not intended to parallel either the level of difficulty or the subjects covered in the examination. The sample questions are only intended to assist candidates in preparing for the types of multiple-choice questions which will appear on the examination.

1. SIPC coverage provides protection on a joint account with two owners to what extent?
  - A. \$500,000 total, including a maximum of \$100,000 for cash balances
  - B. \$500,000 in securities, plus a maximum of \$100,000 for cash balances
  - C. \$500,000 total, including a maximum of \$250,000 for cash balances
  - D. \$1,000,000 total, including a maximum of \$200,000 for cash balances
  
2. During an internal suitability review, a branch manager questions a salesperson on the sale of a 5-year \$500,000 treasury ladder to a recently widowed 60-year-old customer. Which factors would the manager expect the salesperson to have considered in making his recommendation to the customer?
  - I. Effect of the minimum required distribution of the customer's IRA
  - II. Ability of the customer to have access to a portion of the principal for emergencies
  - III. Monthly income needs until social security benefits begin at age 62
  - IV. Effects of the unified credit exclusion for estate planning purposes
  - A. I and III
  - B. I and IV
  - C. II and III
  - D. II and IV
  
3. Written statements regarding retail order period requirements must be provided by the senior syndicate manager to:
  - A. Members of the syndicate.
  - B. Underwriter's counsel.
  - C. Bond counsel.
  - D. Rating agency.
  
4. When would a trade confirmation be issued without a yield?
  - A. For a transaction effected to the call date
  - B. If the trade was done at par
  - C. When commissions are included
  - D. On bonds called at par
  
5. Under MSRB rules, all of the following are included in the term advertisement EXCEPT:
  - A. telemarketing scripts.
  - B. preliminary official statements or official statements.
  - C. a letter summarizing a municipal security mailed to a customer list.
  - D. newspaper announcements of an upcoming bond offering.

ANSWERS: 1. C 2. C 3. A 4. B 5. B

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# Municipal Advisor Representative Qualification Examination (Series 50)

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CONTENT OUTLINE



Municipal Securities Rulemaking Board

# Municipal Advisor Representative Qualification Examination (Series 50)

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## INTRODUCTION

This content outline is intended to help candidates prepare for the Municipal Advisor Representative Qualification Examination (Series 50) by providing relevant information about the examination itself and sharing pertinent information about the content areas that are covered. The sample questions that appear on page 13 are similar to the types of multiple-choice questions that will appear in the examination. In addition, government and self-regulatory organization websites that may be useful in preparing for the examination are provided at the end of the outline.

The questions used in the examination are reviewed and updated on a regular basis and reflect current market practices. Questions that test new rules or amendments will be included in the examination after the effective date of the rule or rule change. Existing questions on rules or portions of rules that have been deleted will be removed from the examination prior to the effective date of the amendment. The Series 50 exam is developed and maintained by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization that establishes rules for municipal securities dealers and municipal advisors.

## PURPOSE FOR AND DEVELOPMENT OF THE EXAMINATION

The Securities Exchange Act requires that the MSRB develop a regulatory framework for municipal advisors, including establishing professional standards. The Series 50 examination for municipal advisor representatives was developed as a part of the fulfillment of that mandate. A municipal advisor representative is a natural person associated with a municipal advisor who engages in municipal advisory activities on the municipal advisor's behalf.

The content areas covered by the examination were determined by a panel of practicing municipal advisor professionals who represented various types of municipal advisors that were nationally diverse. The examination is intended to measure the degree to which candidates have demonstrated knowledge and skills necessary to perform the responsibilities of a municipal advisor representative.

## STRUCTURE OF THE EXAMINATION

The Series 50 examination consists of 100 multiple choice questions that are organized under the following major functions:

Function	Description	Number of Questions
1	Understanding SEC and MSRB Rules Regarding Municipal Advisors	12
2	Understanding Municipal Finance	35
3	Performing Issuer's Credit Analysis and Due Diligence	12
4	Structuring, Pricing and Executing Municipal Debt Products	31
5	Understanding Requirements Related to the Issuance of Municipal Debt	10
		100

Each candidate receives a unique sample of 100 questions that are drawn from the collection of test questions available for the examination, subject to two constraints—the content covered by the examination and the overall difficulty of the examination is the same for all candidates.

## ADMINISTRATION OF THE EXAMINATION

Consistent with the administration of other securities industry examinations, this 100-question examination is administered at a computer. The examination also includes 10 additional questions, which serve to pretest items to ensure that they meet acceptable measurement standards prior to use in future administrations of the Series 50 examination. These 10 pretest items are randomly distributed throughout the examination and do not count for scoring purposes. Candidates receive a short tutorial providing details of the examination administration prior to initiating the test. Including the 30 minutes permitted for the tutorial, candidates are allowed three and one-half hours to complete the Series 50 examination.

A candidate must select one of the four answer choices that are presented for each question in order to complete the examination. Candidates should remember these relevant points about the examination:

- The exam consists of a total of 110 items (100 scored and 10 unscored).
- Each correct answer of a scored item is worth one point.
- It is to the candidate's advantage to answer each question, even if the candidate is uncertain of the correct response.
- Candidates are given three hours to complete the examination.
- Any materials needed to complete the examination will be provided by the test center or within the test itself.

A candidate's total score will be equal to the number of questions answered correctly. To establish the passing score for the examination, the MSRB administered a pilot exam based on the content of the final outline. Following a well-established practice known as standard setting, a committee of industry professionals working as municipal advisors evaluated the results of the pilot, assessing such factors as content difficulty and industry trends, among others. The passing score set by the Board for the Series 50 exam is 71%.

## CONFIDENTIALITY

In order to ensure that its examinations constitute valid tests of the qualifications of persons who take them, the MSRB has instituted various procedures, in the question-writing and administrative phases, which are designed to preserve the confidentiality of the examinations. On several occasions, the MSRB has found it necessary to take legal action, alleging copyright violations, against securities training schools that had used in their training material questions and answers that were determined to have been taken from questions contained in MSRB qualification examinations. In addition, candidates are advised that the practice of "debriefing" persons who have taken a qualification examination may not only give rise to an infringement of the MSRB's copyright but would be a violation of MSRB rules for the candidate.<sup>1</sup>

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<sup>1</sup> Rule G-3(f) on "Confidentiality of Qualification Examinations" states that:

*No associated person of a broker, dealer, municipal securities dealer or municipal advisor shall:*

- (i) in the course of taking a qualification examination required by this rule receive or give assistance of any nature;*
- (ii) disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;*
- (iii) engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or*
- (iv) knowingly sign a false certification concerning any such qualification examination.*

## PART 1: UNDERSTANDING SEC AND MSRB RULES REGARDING MUNICIPAL ADVISORS (12% OF EXAM QUESTIONS)

### 1.1 Assess application of SEC and MSRB rules to firm activities

Educate clients on implication of rules for issuers

Use various resources (web, books, internal policies, etc.) to gain understanding of regulatory framework and rules

Maintain records for compliance with SEC and MSRB rules

#### *Knowledge Required*

##### 1.1.1 Dodd-Frank anti-fraud provision

##### 1.1.2 SEC rules: Activities requiring registration as a municipal advisor; municipal advisor recordkeeping

#### *SEC Rules*

**Exchange Act 15B** *Registration of municipal advisors*

**Exchange Act 17a-3** *Records to Be Made by Certain Exchange Members, Brokers, and Dealers*

**Exchange Act 17a-4** *Records to Be Preserved by Certain Members, Brokers, and Dealers*

##### 1.1.3 MSRB rules governing activities of municipal advisors (e.g., professional qualification; fiduciary duty; recordkeeping)

#### *MSRB Rules*

**Rule A-12 "Registration"**

**Rule D-11 "Associated Persons"**

**Rule D-13 "Municipal Advisory Activities"**

**Rule D-14 "Appropriate Regulatory Agency"**

**Rule G-3 Professional Qualification Requirements**

**Rule G-8 Books and Records to Be Made By Brokers, Dealers, Municipal Securities Dealers and Municipal Advisors**

**Rule G-9 Preservation of Records**

**Rule G-17 Conduct of Municipal Securities and Municipal Advisory Activities**

**Rule G-20 Gifts, Gratuities, Non-Cash Compensation and Expenses of Issuance**

**Rule G-37 Political Contributions and Prohibitions on Municipal Securities Business and Municipal Advisory Business**

**Rule G-42 Duties of Non-Solicitor Municipal Advisors**

**Rule G-44 Supervisory and Compliance Obligations of Municipal Advisors**

## PART 2:

# UNDERSTANDING MUNICIPAL FINANCE (35% OF EXAM QUESTIONS)

### 2.1 Identify market participants

**Understand roles of participants in the issuance of municipal securities**

**Identify and determine the participant roles needed to complete the issuance of municipal securities**

**Develop selection criteria for participants in an issuer transaction**

**Monitor performance and completion of participant tasks in an issuer transaction**

#### Knowledge Required

- 2.1.1 **Definitions and categories of municipal advisor professionals:** *Financial advisors, pricing consultants; investment advisers (GIC; investment of municipal bond proceeds); swap advisors; pension funds and advisors; financial feasibility consultants; appraisers; market consultants; rate consultants; solicitors (third-party marketers; placement agents)*
- 2.1.2 **Issuer participants:** *State governments and instrumentalities (states and state treasurers; state agencies and authorities; state conduit issuers); municipal entities and instrumentalities; 501(c)(3) organizations; obligated persons (e.g., health care entities, private colleges); quasi-governmental agencies (Joint powers agencies, inter-local agencies); multi-state agencies*
- 2.1.3 **Non-issuer participants:** *Legal (bond/issuer counsel; disclosure counsel; tax counsel; underwriter's counsel; general/issuer's counsel; trustees counsel; borrower's counsel; specialized counsel; product counsel (for structured products); swap counsel); market intermediaries (broker dealers and dealer banks—underwriters, traders, placement agents, market makers; lease marketers; solicitors for investments)*
- 2.1.4 **Credit enhancers/liquidity providers** (*bond insurer; letter of credit banks; standby purchasers for variable rate obligations; guarantors*)
- 2.1.5 **Rating agencies** (*rating agencies; underlying ratings; absence of rating*)
- 2.1.6 **Investors** (*retail; direct institutional (including banks, insurance companies, corporations); mutual funds and ETFs; public entities (e.g., GSEs))*
- 2.1.7 **Trustees, paying agents and registrars**
- 2.1.8 **Verification agents**
- 2.1.9 **Other service providers** (*DTCC; CUSIP Service Bureau*)

### 2.2 Consider possible financing solutions for municipal issuers

**Understand benefits and risks of various financing products**

**Identify types and purpose of products**

#### Knowledge Required

- 2.2.1 **Bonds:** *General obligation (limited, unlimited); revenue; special type (special tax; special assessment; moral obligation; double-barreled); tax increment/allocation financing; taxable municipal securities (Build America Bonds (BABs); other taxable municipal bonds; tax credit bonds); notes (e.g., variable rate demand obligations (VRDOs); tax anticipation notes (TANs); tax and revenue anticipation notes (TRANS); construction loan notes (CLN); tax-exempt commercial paper); leases; installment purchase agreements and certificates of participation (annual appropriation leases; abatement leases; installment purchase provisions); bank loans (securities; non-securities transactions); other funding alternatives (other federal programs; grants; state or federal appropriations; pay-as-you-go funding; bond banks and clean water*

- 2.2.2** **Bond proceeds investment strategies:** Escrow (e.g., open market, SLGS); Treasury, federal agencies, investment contracts (GICs; forward delivery agreements); money market instruments (certificates of deposit; commercial paper); investment of bond proceeds (investment suitability; investment policy of issuer; liquidity and spending schedules; indenture requirements)
- 2.2.3** **Municipal fund securities** (Local Government Invest Pools (LGIP) and 529 Savings Plans)
- 2.2.4** **Swaps/derivatives:** swap markets; market participants; use of derivative products in liabilities structuring and management: types and structures (mark-to-market (MTM), fixed/floating, basis, options); applications: hedging (cash flows, future issuance); risks (basis risk, termination, collateral, counterparty); ISDA documentation: credit terms, collateral and legal provisions; suitability and use of swap advisors
- 2.2.5** **Risks associated with products:** Types (credit risk, counterparty risk, interest rate risk; liquidity risk (for variable debt), market access risk, basis risk, political risk); issuer risk management (policies, monitoring, metrics)

### 2.3 Perform quantitative analysis

#### Knowledge Required

- 2.3.1** **Bond valuation**
- 2311** **Security calculations and quoting conventions:** Mathematical calculations for bonds (day count conventions, accrued interest; price vs. price plus accrued interest (clean price and dirty price); price-yield conversion (yield to maturity (YTM), yield to call (YTC), YTP, YTW, cash flow yield (CFY); dollar value of a basis point (DV01); dollar price of 1/32nd; portfolio based yields (CFY; true interest cost (TIC); option-adjusted TIC); net interest cost (NIC); premiums and discounts; average life; arbitrage yield limit)
- 2312** **Valuation of bonds:** Spot rates derived from optionless yield curve; discounting of certain cash flows; valuation of call option given uncertain interest rates; new issue structuring; duration, convexity and option-based risk measures
- 2.3.2** **Refundings**
- 2321** **Refunding considerations:** present value (PV) savings; forfeited option value; future value savings; "high to low" advance refunding; "low to high" advance refunding; other considerations (e.g., covenants)
- 2322** **Current refunding**
- 2323** **Advance refunding:** Net cash; full net cash; crossover
- 2.3.3** **Interest rate derivatives valuation fundamentals** (e.g., swaps; options)
- 2.3.4** **Defeasance of bonds**

### 2.4 Monitor current interest rates and market conditions

Determine optimal timing for issuer transactions Evaluate

municipal supply

Understand general factors affecting interest rates

#### Knowledge Required

- 2.4.1** **Monetary policy**
- 2.4.2** **Fiscal policy**
- 2.4.3** **Economic policy** (e.g., supply and demand)
- 2.4.4** **Other factors affecting interest rates**

## PART 3: PERFORMING ISSUER'S CREDIT ANALYSIS AND DUE DILIGENCE (12% OF EXAM QUESTIONS)

### 3.1 Review relevant financial information

- Consider feasibility and suitability of financing plan
- Evaluate cost and benefits of obtaining credit rating
- Evaluate credit factors that may impact ability to access market
- Evaluate issuer risk tolerance
- Financial reporting and accounting

#### *Knowledge Required*

- 3.1.1 Governance
  - 3.1.2 Economic and demographic factors
  - 3.1.3 Financial information: budgets; financial plans
  - 3.1.4 Financial statements: Comprehensive Annual Financial Reports (CAFR (annual audits))
  - 3.1.5 Debt and liabilities
- 
- 3.2 Components of financial statements: Derivative's disclosure; auditor's opinion; pension liabilities; Other Post Employment Benefits (OPEBs)
  - 3.3 Performing due diligence to know your client
  - 3.4 Distressed events (e.g., bankruptcy, default)

## PART 4:

### STRUCTURING, PRICING AND EXECUTING MUNICIPAL DEBT PRODUCTS (31% OF EXAM QUESTIONS)

**4.1 Define characteristics of proposed transaction**

Assist issuer with creation of debt model

Articulate structure of proposed transaction to issuer and other participants Structure financing according to financing plan

Determine need for credit enhancement (i.e., insurance)

**Knowledge Required**

- 4.1.1 Debt service structure:** *serial, term bonds*
- 4.1.2 Legal/credit provisions**
- 4.1.3 Redemption/call/prepayment provisions**
- 4.1.4 Proceed funds commonly created:** *project/construction/acquisition fund; reserve fund; revenue fund; debt service fund*
- 4.1.5 Coverage requirements/ratios**
- 4.1.6 Additional bonds requirements**
- 4.1.7 Default provisions and remedies**
- 4.1.8 Put options/tender options**
- 4.1.9 When/how to use expert work products (e.g., feasibility consultants, etc.): types, issues**
- 4.1.10 Non-appropriation provisions**
- 4.1.11 Federal and state tax treatment:** *interest income; alternative minimum tax; amortization of premium/accretion of discount; capital gains/loss; taxable securities; bank qualified; de minimis rule*

- 4.2 Price negotiated bond transactions** Research comparable transactions Understand factors considered in pricing Obtain indicative scales/pricing from underwriters Evaluate proposed pricing strategy (account, timing, etc.) Conduct discussions with existing and potential investors

**Knowledge Required**

- 4.2.1 Comparable securities pricing
- 4.2.2 Presale orders
- 4.2.3 Effects of flipping on pricing
- 4.2.4 Liquidity
- 4.2.5 Market volatility
- 4.2.6 Bank qualified vs. non-bank qualified
- 4.2.7 Cost and value of ratings and credit enhancements
- 4.2.8 Economic indicators
- 4.2.9 Par/premium/discount bonds (*couponing*)

- 4.3 Conduct competitive sales**  
Evaluate and determine method of sale

**Knowledge Required**

- 4.3.1 **Methods of primary financing:** public offering (competitive sale, negotiated sale); private placement; direct loans
- 4.3.2 **Dealers (sales and trading):** underwriting syndicate preliminary pricing; priority of orders; order period

- 4.4 Participate in disclosure preparation process**

**Knowledge Required**

- 4.4.1 **Primary sources of information:** Notice of Sale; official statement (preliminary, final); issuer/borrower websites; new issue wires
- 4.4.2 **Aggregators of information:** EMMA (issuer/borrower information, trading/pricing information); print and electronic news services

## PART 5: UNDERSTANDING REQUIREMENTS RELATED TO THE ISSUANCE OF MUNICIPAL DEBT (10% OF EXAM QUESTIONS)

### 5.1 Monitor for arbitrage rebate compliance (ARC)

Assist with preparation and filing of continuing disclosure obligations

#### *Knowledge Required*

- 5.1.1 Broker/dealer registration requirements related to loans vs. the issuance of securities
- 5.1.2 Taxable vs. tax-exempt issues: private activity limits; private activity TEFRA requirements
- 5.1.3 Issuer disclosure: initial offering (official statement content, municipal advisor responsibilities, underwriter's responsibilities); continuing disclosure (annual filings; event notices)
- 5.1.4 Arbitrage: Transferred proceeds; yield restriction; rebate; tax rules for investment of proceeds; project funds (general spending exceptions and temporary periods); exception for small issuers; debt service funding limitations; record keeping requirements (time period, documents retained, document format)

### 5.2 Develop process for post-issuance compliance

#### *Knowledge Required*

- 5.2.1 Written post-issuance policies
- 5.2.2 Issuer recordkeeping

## REFERENCES

Listed below are government and self-regulatory organization websites that provide information candidates may find useful in preparing for the exam. In addition to information about rules, the organizations listed may publish glossaries of terms, explanations of products, and compliance procedures. Candidates are encouraged to refer to the websites for regulatory notices and interpretive guidance concerning amendments to the rules and announcements of new rules that may relate to the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. The MSRB produces only the content outline and is not involved with, nor does it endorse, any particular course of study.

**Board of Governors of the Federal Reserve System (Fed)**

<https://www.federalreserve.gov/supervisionreg.htm>

**Commodity Futures Trading Commission (CFTC)**

<https://cftc.gov/LawRegulation/CommodityExchangeAct/index.htm>

**Federal Deposit Insurance Corporation (FDIC)**

<https://www.fdic.gov/regulations/>

**Financial Industry Regulatory Authority (FINRA)**

<http://www.finra.org/industry/rules-and-guidance>

**Municipal Securities Rulemaking Board (MSRB)**

<http://msrb.org/Rules-and-Interpretations/MSRB-Rules.aspx>

<http://msrb.org/Rules-and-Interpretations/Regulatory-Notices.aspx>

**Municipal Market Education for Professionals (MuniEdPro®)**

<http://msrb.org/Regulated-Entities/MuniEdPro.aspx>

**Office of the Comptroller of the Currency (OCC)**

<https://occ.gov/topics/laws-regulations/index-laws-regulations.html>

**Securities and Exchange Commission (SEC)**

<https://www.sec.gov/rules.shtml>

**Securities Industry / Regulatory Council on Continuing Education (CE Council)**

<http://cecouncil.org/>

## SAMPLE QUESTIONS

The following questions are similar in format and content to questions on the Series 50 examination. The sample questions, however, are not intended to parallel either the level of difficulty or the subject coverage of the examination. The sample questions are only intended to assist candidates in preparing for the types of multiple-choice questions that will appear on the examination.

1. Which two of the following are required in a municipal advisor's fiduciary duty to a municipal client in the conduct of business?
  - I. Dealing honestly and in good faith with the municipal client
  - II. Resigning if client refuses to accept advice given
  - III. Disclosing in writing conflicts of interest
  - IV. Exploring one solution as the course of action

(A) I and IV  
 (B) I and III  
 (C) II and III  
 (D) II and IV
2. The process of a non-profit organization issuing debt by a governmental unit is called a:
 

(A) Negotiated underwriting.  
 (B) Competitive underwriting.  
 (C) Conduit financing.  
 (D) Private placement.
3. When analyzing a municipality's general obligation debt, which of the following would be considered a positive trend?
 

(A) A constant level of debt while property values are increasing  
 (B) Increased short-term borrowing to meet debt service requirements  
 (C) Use of long-term debt to fund operating expenditures  
 (D) Increasing unfunded pension liabilities
4. A feasibility study used with the sale of revenue bonds would do all the following except:
 

(A) determine economic viability.  
 (B) forecast demand or use of a given facility.  
 (C) provide formal bond counsel opinion.  
 (D) provide an independent financial review of the project.
5. What is usually the intent of a municipality when it issues refunding bonds?
 

(A) Create level debt service  
 (B) Lower overall interest costs  
 (C) Create a double-barreled bond  
 (D) Improve their ratings with the rating agencies

ANSWERS 1. B, 2. C, 3. A, 4. C, 5. B



DIVISION OF  
MARKET REGULATION

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

July 24, 2000

Ms. Diane G. Klinke  
General Counsel of the Board  
Municipal Securities Rulemaking Board  
1150 18th Street, N.W.  
Suite 400  
Washington, D.C. 20036

Re: Procedure for Filings Relating to Qualification Examinations

*Diane*  
Dear Ms. Klinke:

I am writing to inform you of a change in the filing requirements for proposed rule changes involving qualification examinations for associated persons. In the past, the Division required the SROs to file question banks for new examinations for Commission approval pursuant to Section 19(b)(2) of the Exchange Act. The Division also required SROs to file questions being added to the question bank for Commission approval.

The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. As you know, Rule 19b-4(f)(6) requires the SRO to give notice to the Commission of its intent to file a proposed rule change five days before doing so. During the five days prior to filing, the Division will determine if the proposed rule change is appropriately filed as non-controversial. To assist us in our analysis, please include a complete description of the examination in your rule filing. For example, the proposed rule change should address who will be required to take the exam, what information the exam will cover, the time allotted for each section, the weight assigned to each topic, the effective date of the exam requirement, and any other information that would be helpful to us in determining whether the proposal should become effective on filing. Also, pursuant to Rule 19b-4(f)(6), the rule change should be designated as effecting a change that does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition and, by its terms, does not become operative for 30 days after the date of the filing.

Diane G. Klinke

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Filings to modify an existing examination should be submitted as "constituting a stated policy, practice, or interpretation with respect to the meaning, administration or enforcement of an existing rule..." pursuant to Section 19(b)(3)(A) of the Exchange Act.

Our goal in changing these procedures is to expedite the effectiveness of proposed rule changes involving examination requirements for persons associated with SRO members. Please contact Kathy England, Assistant Director, at 202-942-0154, or Karl Varner, Special Counsel, at 202-942-7125, if you have any questions.

Sincerely,



Belinda Blaine  
Associate Director