

**Content Outline for the  
General Securities  
Registered Representative  
Examination  
(Test Series 7)**

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## Introduction

The Series 7 Examination is the *Qualification Examination for General Securities Registered Representatives*. As a qualification examination, it is intended to safeguard the investing public by helping to ensure that registered representatives are competent to perform their jobs. Given this purpose, the Series 7 Examination seeks to measure accurately and reliably the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a registered representative (RR).

Candidates should note that the duties and functions of the RR must be performed in accordance with just and equitable principles of trade, federal and state laws, and industry regulations. Furthermore, it is the responsibility of the RR to be aware of changes in current legislation, regulation and policy. The RR's primary responsibility is to the client. When advising the client, the RR must do so fully and honestly. The RR must make a diligent good-faith effort to obtain essential facts prior to making appropriate recommendations. Soliciting clients and counseling established clients are intrinsic duties of an RR, and these tasks must never be performed in a deceptive or fraudulent manner for any purpose. An RR who violates industry regulations is subject to disciplinary action, including censures, fines, suspension, and/or permanent loss of registration.

## Development and Nature of the Series 7 Examination

A committee of RRs and professionals who supervise or train RRs identified and described seven critical functions performed by RRs. Under each critical function, the committee then determined the specific job tasks that the RR performs. This process is designed to ensure that all topics tested in the Series 7 Examination are relevant to the RR's responsibilities. To further ensure and sustain the job relevance of the examination, industry committees of experienced RRs and RR trainers or supervisors write and review all questions.

Because the Series 7 Examination intends to measure competence at an *entry* level, every effort is made to avoid including questions that can be answered correctly by only the most able candidates. The measurement purpose of the Series 7 Examination is to determine whether or not a candidate has attained the level of competency required to function as an RR, not to rate the candidate in relation to the candidate group.

The Series 7 Examination is a six-hour examination containing 250 four-option multiple-choice questions. To help ensure that new questions meet acceptable standards prior to use for scoring purposes, each candidate is given 10 additional, unidentified questions that do not contribute toward the candidate's score. Therefore, each candidate takes a total of 260 questions, 250 of which are scored. A passing score on the examination is equivalent to 70% of the 250 scored questions in a standard form of the examination. In addition to receiving a total score, each candidate receives a score profile indicating performance in specific areas of the examination.

Several model questions are presented on pages 30-31 of this booklet. The model questions are included not to portray a sample of the examination, but to provide an introduction to the basic *types* of multiple-choice questions used in the examination. Candidates who familiarize themselves thoroughly with these formats should be able to improve their test-taking skills so that their performance on the examination will better reflect their true knowledge in the areas tested.

## Organization of the Series 7 Content Outline

The *Series 7 Content Outline* has been designed to provide information for securities firms, training institutions that prepare candidates for the examination, and candidates for the examination who wish to structure their own course of study or supplement courses prepared by others. The outline contains a listing of the topics in the examination, the relative emphasis on the topic areas, model questions with answers, and a bibliography of basic study materials.

To make full use of the *Series 7 Content Outline* in studying the topics covered in the Series 7 Examination, note the following features:

1. The outline describes the seven critical functions performed by an RR. The critical functions are arranged generally in the order in which they would be performed by an RR in prospecting and handling a new customer account. Note, however, that in the Series 7 Examination, the questions are not necessarily presented in this order.
2. The number of questions in the examination related to each critical function is indicated under the examination specifications. This provides an indication of the relative emphasis placed on the critical functions and their respective subject matter.
3. Under each critical function is a list of main topic headings, denoted by two-digit numbers, such as 1.1, 1.2. In many instances the topic headings are expanded to subheadings (e.g., 1.1.1). The main topic headings and their subheadings cover the primary subject matter that the RR needs to know to perform that critical function and its job tasks.
4. Two lists of laws and regulations are provided on pages 23-29 of the content outline. The lists contain the same information, topics referenced to laws and regulations covered in the examination. They are simply two ways of organizing the information. In the first list, the topic numbers are listed in sequence, with the applicable regulation(s) given for each topic (e.g., 5.3.1.2--Securities Exchange Act of 1934, Rule 10b-5). In the second, the laws and regulations are referenced to the related topic number(s) (e.g., CBOE Rule 6.53--6.1.1, 6.1.2).

## **Critical Functions and Tasks of the Registered Representative**

- 1) Seeks business for the broker-dealer through customers and potential customers.**
  - 1-1) Contacts customers and potential customers in person, by telephone, by mail, and/or other means.
  - 1-2) Conducts lectures, seminars, and forums with customers and potential customers.
  
- 2) Evaluates customers in terms of financial needs, current holdings, and available investment capital, and helps them identify their investment objectives.**
  - 2-1) Obtains a current financial and investment profile of the customer.
  - 2-2) Assists the customer in determining investment needs and objectives.
  
- 3) Provides customers and prospective customers with information on investments and makes suitable recommendations.**
  - 3-1) Describes the characteristics, risks, and rewards of various securities.
  - 3-2) Ensures that the customer is provided with pertinent information describing a particular investment.
  - 3-3) Obtains and updates relevant information about the customer when making any recommendation.
  - 3-4) Investigates alternative investments for the customer.
  - 3-5) Considers the tax implications for a customer of particular investments.
  - 3-6) Makes suitable recommendations on the basis of information disclosed by the customer.
  - 3-7) Explains how the risks and rewards of a particular investment or investment strategy relate to the customer's financial needs and investment objectives.
  - 3-8) Provides the customer with pertinent information on costs and fees associated with particular securities transactions.
  
- 4) Opens, transfers, and closes customer accounts and maintains appropriate account records.**
  - 4-1) Informs the customer of the basic types of accounts and, where applicable, indicates the appropriateness of each for the customer.
  - 4-2) Obtains from the customer all documentation required to open the account(s) and informs the customer of the consequences of not providing proper documentation.
  - 4-3) Ensures that accounts and transactions that are prohibited for a customer are not initiated.
  - 4-4) Obtains any approvals required to open an account.
  - 4-5) Informs the customer of the conditions (regulatory and firm) under which the account will be maintained.
  - 4-6) Retains copies of all correspondence with the customer.
  - 4-7) Updates the customer's account records.
  - 4-8) Executes appropriate customer requests, such as withdrawals of funds or securities.
  - 4-9) If there is to be any power of attorney over the account, obtains the necessary documents and approvals.
  
- 5) Explains the organization, participants, and functions of various securities markets and the principal factors that affect them.**
  - 5-1) Explains the purpose and workings of the primary marketplace and how new issues of various types of securities are sold.
  - 5-2) Explains the workings of secondary markets.
  - 5-3) Assesses and explains, if required, how global events may affect the markets.
  - 5-4) Obtains economic news and assesses how this may affect the markets.
  
- 6) Obtains and verifies the customer's purchase and sale instructions, enters orders, and follows up on completion of transactions.**
  - 6-1) Explains the basic types of orders and how they relate to the customer's objectives.
  - 6-2) Completes the order ticket according to the customer's instructions and verifies the order with the customer prior to order entry.
  - 6-3) Checks open order notices.
  - 6-4) Ensures that the customer understands the settlement procedures for each type of security.
  - 6-5) Enters orders appropriately.
  - 6-6) Promptly reports trade confirmation to the customer and ensures that the transaction is recorded in the customer's account.
  
- 7) Monitors the customer's portfolio and makes recommendations consistent with changes in economic and financial conditions as well as the customer's needs and objectives.**
  - 7-1) Routinely reviews the customer's account to ensure that investments continue to be suitable.
  - 7-2) Suggests to the customer which securities to acquire, liquidate, hold, or hedge.
  - 7-3) Explains how news about an issuer's financial outlook may affect the performance of that issuer's securities.
  - 7-4) Determines which sources would best answer a customer's questions concerning investments and uses information from appropriate sources to provide the customer with relevant information.
  - 7-5) Keeps the customer informed about the customer's investments.

## Relative Emphasis on Critical Functions

<b>Critical Function</b>	<b>Number of Questions</b>
1. Seeks business for the broker-dealer through customers and potential customers.	9
2. Evaluates customers in terms of financial needs, current holdings, and available investment capital, and helps them identify their investment objectives.	4
3. Provides customers and prospective customers with information on investments and makes suitable recommendations.	123
4. Opens, transfers, and closes customer accounts and maintains appropriate account records.	27
5. Explains the organization, participants, and functions of various securities markets and the principal factors that affect them.	53
6. Obtains and verifies the customer's purchase and sale instructions, enters orders, and follows up on completion of transactions.	13
7. Monitors the customer's portfolio and makes recommendations consistent with changes in economic and financial conditions as well as the customer's needs and objectives.	21
<b>Total</b>	<b>250</b>

# **1 Seeks business for the broker-dealer through customers and potential customers.**

## **1.1 Requirements for registration of individuals**

1.1.1 Registered representatives--definitions, termination and transfer, disclosure of outside business activities, penalties and sanctions for rule violations

1.1.2 Investment advisers--definition, federal and state registration requirements and exemptions

## **1.2 Standards for public communications** (telephone solicitations, correspondence, advertisements, market letters, research reports, sales literature, educational material, electronic communications, communications in and with the press, seminars, lectures)

1.2.1 Regulation of telephone solicitations ("cold calling")

1.2.2 Requirements for recommendations of securities

1.2.3 Definition and approval of public communications

1.2.4 Definition and approval of options-related advertisements, educational material, sales literature; Options Disclosure Document (ODD)

1.2.5 Definition, specific standards for, and approval of municipal securities advertisements--professional, product advertisements, new issue advertisements

1.2.6 Specific requirements for advertisements of investment company products and variable contracts

1.2.7 Specific requirements for advertisements of other securities (e.g., government securities, CMOs, CDs)

# **2 Evaluates customers in terms of available investment capital, current holdings, and financial needs, and helps them identify their investment objectives.**

## **2.1 Investment profile of a customer**

2.1.1 Financial profile

Balance sheet--current assets, current liabilities, marketable securities, deferred assets (e.g., annuities and retirement accounts)

Income statement--current income, current expenses, net spendable income available for investment, net worth, liquid net worth

Other financial considerations--home ownership, life and disability insurance, tax status, credit worthiness, credit report

2.1.2 Nonfinancial investment considerations--individual and family data: age, marital status, dependents, employment, employment of family members, educational needs of dependents, existence of a will

2.1.3 Risk tolerance and investment experience

## **2.2 Investment objectives**--preservation of capital, current income, capital growth, total return (growth with income), tax advantages, portfolio diversification, liquidity, speculation, trading profits, long-term vs. short-term risk

### **3 Provides customers and prospective customers with information on investments and makes suitable recommendations.**

#### **3.1 Investment risk**

- 3.1.1 Definitions of types of investment risk--inflationary, capital, timing, interest-rate, market (systematic), credit, liquidity, political (legislative), call, currency
- 3.1.2 Risks related to various types of investment recommendations (e.g., growth, speculative, defensive stocks)

#### **3.2 Taxation** (*Other sections of the outline include more specific topics related to taxation.*)

- 3.2.1 U.S. federal taxation--tax brackets, types of income (earned, investment, passive)
- 3.2.2 Tax treatment of foreign securities purchased by U.S. citizens
- 3.2.3 Tax treatment of wash sales

#### **3.3 Equity securities**

- 3.3.1 Terms, agents and procedures associated with equity securities and their negotiability--authorized, issued, outstanding, treasury stock, no par value, par value, stated value, limited liability, stock certificate, escrow receipt, transfer agent, registrar, endorsements, transfer procedures

- 3.3.2 Common stock

- Definition

- Rights of common stockholders--preemptive right, pro rata share of dividends, access to corporate books, voting power (statutory, cumulative, proxies, nonvoting), residual claims on corporate assets

- Terms associated with types of stock--blue chip, growth, emerging growth, income, cyclical/counter cyclical, defensive, speculative, special situation

- Dividends--cash, stock or product

- Stock splits, reverse splits

- 3.3.3 Preferred stock

- Definition

- Principal kinds of preferred stock--cumulative, noncumulative, participating, nonparticipating, convertible, callable, sinking fund provisions, adjustable-rate, preference upon corporate dissolution

- 3.3.4 Other types of equity securities

- 3.3.4.1 Rights offering--definition and purpose, origination, exercise of rights

- 3.3.4.2 Warrants--definition and purpose, origination, exercise terms, relationship of subscription price to market price of underlying stock, antidilution agreement

- 3.3.4.3 American Depositary Receipts (ADRs)--definition and purposes

### 3.3.5 Tax treatment of equity securities transactions

#### 3.3.5.1 Definition and tax treatment of capital gains and losses, dividend distributions

#### 3.3.5.2 Determination of net long-term and short-term gains or losses

Holding periods for "when issued" securities, securities acquired through conversion, securities received as gifts or bequests

Cost basis per share--on purchases, exchange of convertibles for common shares, stock dividends and stock rights, inherited or gifted securities

Methods of selling part of a position--FIFO, LIFO, identified shares

### 3.3.6 Direct participation programs (DPPs)

#### 3.3.6.1 General characteristics and procedures--procedures and requirements for forming limited partnerships; information required in certificate of limited partnership, partnership agreement, subscription agreement; liability of limited partners; flow-through of income and certain expenses; restrictions on activities of limited partners, dissolution of a limited partnership

#### 3.3.6.2 Various types of DPPs--definition, investment advantages and risks, tax implications for real estate DPPs, oil and gas programs, equipment leasing programs

#### 3.3.6.3 Subscription agreements--responsibility of RR regarding representation in the subscription agreement, sales conditioned upon acceptance by general partners

#### 3.3.6.4 Offerings of direct participation programs; types of offering--private, public

#### 3.3.6.5 Evaluating the direct participation program--factors to consider, such as economic soundness of the program, expertise of the general partner, basic objectives of the program; start-up costs and other revenue considerations

## 3.4 Debt instruments

### 3.4.1 U.S. Treasury securities--For U.S. Treasury bills, U.S. Treasury notes, U.S. Treasury bonds, Treasury receipts (STRIPS), the following:

#### 3.4.1.1 Characteristics such as maturities, denominations, issue form, quotations, pricing

#### 3.4.1.2 Interest on--traded "and interest," computation of number of days of accrued interest

#### 3.4.1.3 Yields--coupon (nominal), current, yield-to-maturity, discount yield (T-bills only)

### 3.4.2 U.S. government agency securities

#### 3.4.2.1 Definition, general characteristics, and principal agencies that issue

#### 3.4.2.2 Specific agency securities--characteristics such as maturities, denominations, form of ownership, purposes, payment of interest for Federal Farm Credit Consolidated Systemwide Bank, Federal Home Loan Bank securities, Student Loan Marketing Association (Sallie Mae) securities

- 3.4.2.3 Government agency mortgage-backed securities--characteristics such as types, denominations, risks, payment of interest and principal for Government National Mortgage Association pass-throughs (GNMAs), Federal National Mortgage Association (FNMA) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities
- 3.4.3 Asset-backed securities, such as Collateralized Mortgage Obligations (CMOs)
  - 3.4.3.1 General characteristics, types and structure
  - 3.4.3.2 Types of risks and potential rewards
- 3.4.4 Corporate bonds
  - 3.4.4.1 General characteristics--maturities, form of ownership, interest payment periods, redeemability at par at maturity, may be subject to call
  - 3.4.4.2 Specific types and their characteristics, such as maturity, type of collateral, priority of claim, callability; unique characteristics: mortgage bonds, equipment trust certificates, debentures, income bonds (adjustment bonds), guaranteed bonds
  - 3.4.4.3 Convertible bonds--conversion privilege, fixed vs. variable; conversion ratio or price; calculation of parity price of underlying security; arbitrage, factors influencing conversion, including forced conversions
  - 3.4.4.4 Retirement of corporate bonds by redemption, refunding (call) or conversion
  - 3.4.4.5 Calculation of accrued interest, bonds traded flat
  - 3.4.4.6 Calculation of yields--coupon (nominal), current, yield-to-maturity, yield-to-call
  - 3.4.4.7 Corporate bond ratings--rating agencies, types of ratings
- 3.4.5 Tax treatment of taxable debt securities--interest, principal, premiums, discounts
- 3.4.6 Federal taxation of corporations--corporate tax rate, treatment of dividends received by a corporation
- 3.4.7 Definitions and characteristics of the following money market instruments:
  - 3.4.7.1 Repurchase agreements (REPOs)
  - 3.4.7.2 Federal funds
  - 3.4.7.3 Corporate commercial paper
  - 3.4.7.4 Negotiable certificates of deposit (CDs)
  - 3.4.7.5 Eurodollars, Eurodollar bonds
  - 3.4.7.6 Bankers' acceptances (BAs)

### 3.4.8 Municipal securities

3.4.8.1 General characteristics of municipal securities--price quotations (basis price, dollar price), forms of ownership (bearer, registered as to principal only, fully registered, book-entry), interest rate (types, payment periods), denominations, diversity of maturities (serial, term, balloon), legal opinion (purpose and contents)

3.4.8.2 Definitions and characteristics of the following specific types of municipal securities:

General obligation (GO) bonds and notes

Revenue bonds

Industrial revenue (industrial development) bonds

Short-term municipal obligations--tax anticipation notes (TANs), bond anticipation notes (BANs), revenue anticipation notes (RANs), project notes (PNs), construction loan notes (CLNs), demand notes (variable-rate demand obligations), tax-exempt commercial paper

Special types of municipal bonds--special tax, special assessment, moral obligation, advance-refunded, double-barreled, taxable, original-issue discount (OIDs), zero-coupon, alternative minimum tax (AMT)

3.4.8.3 Investment features of municipal securities

Factors affecting the marketability of municipal bonds--quality (rating), maturity, call features, interest (coupon) rate, block size, liquidity, dollar price, issuer name (local or national reputation), in default and/or flat, sinking fund, registered, bearer, book-entry form, safety of principal (insured or uninsured)

Diversification of municipal investments--geographical, maturity, purpose

3.4.8.4 Early retirement of municipal securities

Call features--par or premium, optional, mandatory, advantages/disadvantages to issuers and investors, partial call

Put or tender options

Redemption of bonds--prior notice required, methods of call (sinking fund redemption, extraordinary calls)

Refunding methods--direct exchange, sale of new issue, advance refunding, refunding at call dates, escrow to maturity

3.4.8.5 Pricing of municipal securities and other mathematical calculations--dollar price, yield, accrued interest (regular coupon, odd first coupon), day-count basis of computations of accrued interest on notes (variable) and bonds (30/360), amortization of premium, accretion of discount, relationship of bond prices to changes in maturity, coupon, yield; taxable equivalent yield, net yield after capital gains tax, current yield, yield-to-call on premium bonds, dollar value of municipal points and fractions, value of basis point, trading "flat"

3.4.8.6 Tax treatment of municipal securities--securities bought at a discount or premium in the secondary market, OID, margin purchases, federal income tax status, state and local tax status, computation of taxable equivalent yield, accrued interest, AMT

### 3.5 Packaged securities

3.5.1 Definition, general characteristics, and the similarities and differences among investment companies, variable annuities, and real estate investment trusts (REITs)

3.5.2 Investment companies

3.5.2.1 Management companies

Closed-end investment companies--definition, characteristics, distinctions from open-end funds

Open-end investment companies (mutual funds)

General characteristics, structure and operation, functions of board of directors, role and compensation of investment adviser, rights of shareholders, functions of underwriter (sponsor or distributor), role of custodian, fund's objectives

Types of mutual funds by objective (e.g., growth funds, income funds)

Types of mutual funds by portfolio composition (e.g., municipal bond funds, money market funds)

Marketing of mutual funds--determining the Net Asset Value (NAV), computing the offering price, reinvestment of dividends and/or capital gains, dollar cost averaging, exchange privileges within families of funds

Mutual fund sales charges and expenses--no load, load (front-end, back-end), distribution fees, management fees, nature of 12b-1 fees, computing the sales charge, sales charge reduction for quantity purchases (breakpoints, letters of intent, rights of accumulation)

Redemption of mutual fund shares--redemption price, payout or withdrawal plans, conversion privilege, restrictions

Special tax considerations for regulated investment companies, basic principal of the conduit theory

3.5.2.2 Unit investment trusts--definition, characteristics, distinctions from management companies

3.5.2.3 Tax treatment of investment company securities--distributions, exchanges

3.5.3 Variable annuity contracts

3.5.3.1 Definition, insurance aspects

3.5.3.2 Investment considerations, risks

3.5.3.3 Separate accounts--purpose, management of portfolio, investment policies, performance of account

3.5.3.4 Valuation of a variable annuity contract--accumulation units and their surrender value, annuity units, assumed interest rate (AIR), relationship between AIR and actual rate of return

- 3.5.3.5 Purchasing variable annuities--immediate annuity, charges, fees, penalties, rights of accumulation, waiver of premium
- 3.5.3.6 Electing to annuitize--types of election, the variable payout
- 3.5.3.7 Tax treatment of variable annuity contracts--during accumulation period, during annuity period, taxation at surrender of contract, death benefits during accumulation period
- 3.5.4 Real estate investment trusts (REITs)
  - 3.5.4.1 Characteristics, such as capital structure (e.g., equity REIT, mortgage REIT), requirements for favorable tax treatment under Internal Revenue Code, establishment of a trust indenture
  - 3.5.4.2 Tax treatment of real estate investment trusts (REITs)--taxation of REIT (distribution of original income and capital gains, taxability of undistributed income and gains), taxation of beneficiaries of REIT (distributions of income and capital gains)

### 3.6 Derivative products

- 3.6.1 Listed options
  - 3.6.1.1 Basic definitions--Options Clearing Corp. (OCC), call, put, type, class, series, strike price (exercise price), expiration date, exercise, assignment of exercise notice, premium, in-the-money, out-of-the-money, intrinsic value, time value, parity, opening transaction, closing transaction, position limits, exercise limits, open interest, option OCC settlement date, expiration breakeven points, covered call, covered put, uncovered (naked) call writer, uncovered (naked) put writer, spread, straddle, combination, opening rotation, closing rotation, options disclosure document(s)
  - 3.6.1.2 Characteristics specific to the following:
    - Equity options, including long-term, such as LEAPS®
    - Index options, including capped (also cap intervals) and long-term, such as LEAPS®
    - Exchange-traded debt options, yield-based options
    - Foreign currency options, including long-dated options
  - 3.6.1.3 Definitions and characteristics of basic option strategies
    - Neutral--covered call writing (at market), straddle writing, combination writing
    - Bearish--covered call writing (below market), uncovered call writing, covered put writing, put purchase, bear spread
    - Bullish--covered call writing (above market), uncovered put writing, call purchase, bull spread
  - 3.6.1.4 Tax treatment of option transactions (equity, index, foreign currency, debt, yield-based)

### **3.7 Retirement plans and estate tax considerations**

- 3.7.1 Individual plans--eligibility, maximum contribution, contributions covering nonworking spouses, types of allowable contribution, taxation of investments within plan, distribution options, taxation of distribution at retirement, minimum age to receive retirement distribution, allowable reasons for distribution before minimum age, penalties for premature withdrawal, age at which distributions must begin, permissible investments in the plan, effect on plan of change of employment, taxation of contributions, penalty on excess contributions, employee coverage, rollovers
  - 3.7.1.1 Individual Retirement Accounts (IRAs and SEP-IRAs)
  - 3.7.1.2 H.R. 10 (Keogh) plans
- 3.7.2 Employer sponsored plans--definitions, characteristics, and requirements for deferred compensation plans, profit-sharing plans, defined contribution plans, defined benefit plans, tax-deferred annuity plans [403(b)], payroll deduction savings plans [qualified, such as 401(k), and nonqualified], rollovers
- 3.7.3 Employees Retirement Income Security Act plans (ERISA)--employee participation, funding, fiduciary responsibilities of trustees, vesting, nondiscrimination tests, communications with participants (e.g., describing plan benefits, availability, account status, vesting procedure)
- 3.7.4 Federal estate and gift tax considerations--unification of gift and estate taxes, lifetime exclusion, annual gifts excluded from taxation, UGMA/UTMA accounts, taxation of securities received as a gift, valuation of securities received as result of a bequest

### **3.8 Special product emphasis** (may be new products, additional emphasis on products listed elsewhere, or other product emphasis, as determined by the Exchange and announced in an Information Memo at least 90 days prior to inclusion)

## **4 Opens, transfers, and closes customer accounts and maintains appropriate account records.**

### **4.1 Requirements for opening customer accounts, including approvals**

- 4.1.1 Cash, margin, option, individual, joint [Joint Tenants with Right of Survivorship (JTWROS), Joint Tenants in Common (JTIC)], community property, sole proprietorship, insiders, partnership, corporation, unincorporated associations, trust, fiduciary, custodian under UGMA/UTMA, investment adviser, discretionary authority, power of attorney, those requiring employer's written authorization, retirement plans, numbered (confidential)

### **4.2 Rules governing the conduct of accounts**

- 4.2.1 Designation of accounts, carrying accounts of employees of other broker-dealers, discretionary accounts, sending account statements to customers, retention of customer mail, changes in designation on orders, erroneous reports to customers regarding order executions, review and approval of all outgoing correspondence, customer complaints, acceptance of COD purchase orders, updating of customer account records, execution of appropriate customer requests

- 4.2.1.1 Circumstances for refusing or restricting activity and/or closing accounts, allowable transactions, prohibited accounts, legally restricted accounts, frozen accounts

Procedures the RR must follow upon receiving notice of the death of a customer

Other circumstances for closing or transferring accounts

- 4.2.2 State regulation of fiduciary accounts--legal list, "Prudent Man" Rule

### **4.3 Margin accounts**

- 4.3.1 Key terms--margin, hypothecation, rehypothecation, marginable securities, exempt and nonexempt securities, loan value, margin calls, special memorandum account (SMA)

- 4.3.2 Requirements and characteristics--approvals, ineligible accounts, eligible/ineligible securities, Reg T, SRO requirements

- 4.3.3 Calculations in equity margin accounts (long and/or short positions)

- 4.3.3.1 Basic--long market value, short market value, debit balance, credit balance, initial Reg T margin requirement on long or short positions, Reg T requirement for established accounts, loan value, excess equity, buying power of deposited securities

- 4.3.3.2 Recalculating as a result of transactions--additional purchases, sales (long or short), cash withdrawals, stock withdrawals, liquidation of securities to meet Reg T calls, simultaneous purchases, sales of unequal value, restricted margin accounts, current dollar value of securities that must be liquidated to meet a margin/maintenance call, current dollar value of deposited securities required to meet a margin/maintenance call

- 4.3.3.3 SMA--SMA balance, buying power of SMA balance, SMA balance used to meet a Reg T call, effect on SMA balance of excess equity, additional deposit of marginable securities, receipt of cash dividends and earned interest, liquidation of securities in the account, cash or securities withdrawals, new margin securities purchased or sold short

4.3.4 Short sales

- 4.3.4.1 Definition, characteristics and purposes--speculation, hedging, tax purposes (against the box), covering the short position, market arbitrage, arbitrage between equivalent securities, margin treatment of arbitrage transactions, risk arbitrage
- 4.3.4.2 "Plus Tick" Rule--terms (plus tick, zero-plus tick, minus tick, zero-minus tick), exceptions to the rule
- 4.3.4.3 Tax treatment of profits or losses from short sales, shorting against the box

## **5 Explains the organization, participants, and functions of various securities markets and the principal factors that affect them.**

### **5.1 The self-regulatory organizations (SROs)**

- 5.1.1 Structure and authority of each SRO
- 5.1.2 Scope and nature of SRO rules; regulations of the various SROs regarding uniform practice, prices and commissions (e.g., markups, free riding and withholding); regulations of the SROs regarding gifts and gratuities, use of information obtained in fiduciary capacity
- 5.1.3 Prohibited activities
- 5.1.4 Arbitration--purposes, procedures, rules of the various SROs
- 5.1.5 Trade practice complaints and other disciplinary proceedings

### **5.2 The primary marketplace**

- 5.2.1 Bringing new issues to market, investment banking
  - 5.2.1.1 Functions of the investment banker--advisory and distribution (underwriting)  
Nature and terminology of the underwriting procedure
  - 5.2.1.2 Formation of the underwriting syndicate--types of selling groups, underwriting commitments, offerings
  - 5.2.1.3 Filing and preparation of registration statement  
Due diligence meeting  
Preparation and issuance of preliminary prospectus  
Preparation and issuance of final prospectus  
Underwriting agreement and agreement among underwriters  
Selling group agreements--contents of agreement, liabilities of selling group members vs. those of the underwriters  
Blue-sky rules and procedure
  - 5.2.1.4 Pricing practices  
Determination of underwriters' compensation  
Components of underwriters' spread  
Selling group concession and reallowance
  - 5.2.1.5 Selling practices  
Stabilizing--purpose of syndicate bid, penalty fees to syndicate members  
Overallocments  
Tombstone advertisements--contents and purposes
  - 5.2.1.6 Shelf distributions--definition and purpose
- 5.2.2 Regulation of new issue offerings
  - 5.2.2.1 The Securities Act of 1933--definition and purposes
  - 5.2.2.2 Information required in a registration statement

- 5.2.2.3 Filing period, key terms--filing date, cooling-off period, effective date of registration
- 5.2.2.4 Release of publicity and offering material on new issues--in pre-filing period; in cooling-off period, indications of interest (delivery of red herring); in post-registration period
- 5.2.2.5 Prospectus requirements--registration statement, timeliness of information, preliminary prospectus (red herring), final prospectus, delivery requirements of the prospectus
- 5.2.2.6 Restrictions on prospecting or soliciting while a security is in registration--limitations on use of preliminary prospectus, taking indications of interest for a new issue, post-distribution restrictions
- 5.2.2.7 Reg A offerings--requirements for qualification of a Regulation A offering, filing of abbreviated registration statement and offering circular
- 5.2.2.8 Securities and/or transactions exempted from registration
  - Private placement registration exemption--Regulation D, definition of an accredited investor
  - SEA Rule 144, purpose and terminology--control securities, control persons, restricted securities, reporting companies; basic requirements--holding period, quantity limitations, filing requirements
  - Nonregistered foreign securities sold to institutional investors in the U.S.--SEA Rule 144A
  - Stock acquired through a merger, consolidation or transfer--SEA Rule 145
- 5.2.2.9 State regulation, "blue sky" laws
- 5.2.2.10 Trust Indenture Act of 1939--definition and purpose of bond indenture, role of trustee
- 5.2.2.11 The primary market for municipal securities
  - Methods for primary financing--competitive sale, negotiated sale, public offering, private placement, advance refundings
  - Documents generally provided by issuer
  - Official statements--purpose, contents, requirements
  - Functions of a bond attorney
  - Underwriting procedures--account formation procedures, determining members and participations; underwriting account agreements; types of accounts [undivided (Eastern account), divided (Western account)]; roles of underwriters, responsibilities of manager and members; determination of syndicate bid--components; computations of bid--production, bid price, basis of award; factors relevant to members' acceptance of bid; syndicate operational procedures--priority provisions, the order period, concessions and takedowns

## 5.3 The secondary marketplace

- 5.3.1 Regulation and participants
  - 5.3.1.1 The Securities Exchange Act of 1934--definition, purposes, applicability of antifraud provisions
  - 5.3.1.2 Regulation of insider activities and use of inside information--definition of an insider and the regulated activities
  - 5.3.1.3 Regulation of proxies
  - 5.3.1.4 Regulation of activities of broker-dealers--trading for own accounts, specialist activities, broker-dealer in same transaction, manipulative and deceptive devices, short-tendering of stock, trading by participants in the distribution of a security, stabilizing bids other than during offerings, extension of credit to customers of new issues by participants, segregating customer securities, pledging of customer securities, commingling, rehypothecation, purpose of net capital requirements
- 5.3.2 Penny stock regulations--basic provisions
- 5.3.3 Securities Investor Protection Corporation (SIPC)--purpose, limits of protection
- 5.3.4 Secondary market for equity securities
  - 5.3.4.1 Exchange auction market--role and functions of the specialist, purpose of listing on an exchange, limitations on trading during significant market declines
  - 5.3.4.2 Over-the-counter (OTC) market and nature of the negotiated market--role and function of the market maker, principal transactions, agency transactions, quotations (firm, subject or otherwise qualified, bid wanted, offer wanted, size obligations), transaction reporting, purpose of listing on the Nasdaq
- 5.3.5 Exchange options markets--nature and functioning, trading floor participants
- 5.3.6 Secondary market for municipal securities
  - 5.3.6.1 Types of orders or offerings--at advertised yield, at a down bid, all-or-none (AON), multiples
  - 5.3.6.2 Types of business activity--institutional, retail, interdealer, broker's broker
  - 5.3.6.3 Role of municipal bond trader
- 5.3.7 Secondary market for U.S. Treasury securities, government agency securities and pass-throughs
  - 5.3.7.1 General characteristics
  - 5.3.7.2 Primary dealers, marketing methods
- 5.3.8 General characteristics of and participants in the secondary market for the following securities:
  - 5.3.8.1 Corporate bonds (including high-yield bonds)
  - 5.3.8.2 Repurchase agreements (Repos)
  - 5.3.8.3 Commercial paper

- 5.3.8.4 Negotiable certificates of deposit (jumbo CDs)
- 5.3.8.5 Eurodollar bonds
- 5.3.8.6 Bankers' acceptances (BAs)
- 5.3.8.7 Pass-throughs and collateralized mortgage obligations (CMOs)
- 5.3.9 The currency market (interbank market) and its risks
  - Terminology--floating/fixed exchange rates, exchange rate controls, central bank interventions, revaluation/devaluation
  - Factors that would affect the exchange rate of a specific currency
- 5.3.10 The third market--definition, restrictions on transactions and reporting
- 5.3.11 The fourth market--definition, purposes, participants, structure

#### **5.4 Principal factors affecting securities markets and prices**

- 5.4.1 Business cycle
  - 5.4.1.1 Definition and characteristics, key terms (depression, recession, inflation, peak, trough, contraction, recovery, cycle), level of business activity [Gross Domestic Product (GDP)], inflation indicators (e.g., CPI)
  - 5.4.1.2 Business cycle indicators--leading economic indicators, coincident economic indicators, lagging economic indicators
  - 5.4.1.3 Effect of the business cycle on securities markets
    - Bond markets--effect of inflation/deflation on interest rates; impact of economic and financial conditions on yield spreads; yield curve analysis (normal, inverted, flat yield curves and their implications)
    - Equities markets--effects of inflation/deflation on the relationship between yields on fixed-income securities and equities; interest-rate-sensitive stocks; cyclical stocks and defensive stocks; effects on current stock prices of changes in expectations of future business profits
- 5.4.2 Principal economic theories
  - 5.4.2.1 Keynesian theory, definition and key terms--consumption, investment, savings, the multiplier effect, marginal propensity to consume, liquidity preference
  - 5.4.2.2 Monetarist theory, definition and key terms--money supply, M1, M2, M3
- 5.4.3 The role of the Federal Reserve Board in controlling the level of business activity through open-market activities, interest rates, discount rate, reserve requirements, margin requirements; effects on interest rates and economic activity as a result of changes in the money supply
- 5.4.4 Effects of international economic factors on securities markets--U.S. balance of payments, exchange rate U.S. dollar for other currencies, comparison of domestic interest rates to foreign interest rates
- 5.4.5 Sources of data on business conditions and corporate profits; sources of information regarding the level of business activity--major financial publications, business indexes and statistics, newspapers and periodicals, U.S. government sources (*Questions may present excerpts from these sources and test understanding of the relationship between the data presented and current or potential conditions in the securities markets.*)

## **6 Obtains and verifies the customer's purchase and sale instructions, enters orders, and follows up on completion of transactions.**

### **6.1 Securities orders and confirmations**

- 6.1.1 Types of securities orders--market, limit, stop, stop limit, day, good-till-canceled (GTC); options (open/close, spread, straddle) (*Orders accepted may vary by SRO.*)
- 6.1.2 Order execution qualifiers--all or none, fill or kill, immediate or cancel, not held
- 6.1.3 Filling out the order ticket by the RR--information required, use of automated quotation information, identification of sell orders as short or long
- 6.1.4 Purposes of and restrictions on use of automated execution systems
- 6.1.5 RR recordkeeping responsibilities--changes in designation of orders, erroneous reports
- 6.1.6 Customer confirmations--components, when sent to customers, confirmations and statements sent to third parties

### **6.2 Delivery and settlement of transactions**

- 6.2.1 Regulations and practices relating to "good delivery"
  - What constitutes "good delivery"--certificates in possession of the seller, certificates in the name of two persons, certificate signed by an owner who is now deceased, need for stock or bond powers
  - Denominations--equity securities, bonds
  - Automated clearance of book-entry securities
- 6.2.2 Settlement of securities transactions
  - 6.2.2.1 Primary market--when as and if issued (WI)
  - 6.2.2.2 Secondary market--regular-way, ex-rights, ex-dividends, due bills, due bill checks
  - 6.2.2.3 Negotiated settlements--cash, seller's option, delayed delivery, as mutually agreed upon
  - 6.2.2.4 Settlement of options--opening and closing transactions, exercise/assignment
  - 6.2.2.5 Settlement of U.S. Treasury and government agency securities
  - 6.2.2.6 Settlement of municipal securities--cash, regular-way, delayed delivery, when as and if issued (WI), as mutually agreed upon
  - 6.2.2.7 "DK" procedures--when applicable, consequences of receiving a "DK"

### **6.3 Record keeping**

- 6.3.1 RR's recordkeeping responsibilities with regard to updating of customer account information and customer holding pages
- 6.3.2 Industry regulations regarding a firm's recordkeeping responsibilities--keeping of all firm records and books, transmitting account information to customers, maintaining a file of customer complaints and their disposition

## **7 Monitors the customer's portfolio and makes recommendations consistent with changes in economic and financial conditions as well as the customer's needs and objectives.**

### **7.1 Portfolio analysis**

- 7.1.1 Changing factors that affect customer's investment objectives--age, marital status, family responsibilities, education, investment experience
- 7.1.2 Portfolio management policies--aggressive, defensive, aggressive/defensive (balanced portfolio)
- 7.1.3 Portfolio theory and its application to security selection
  - 7.1.3.1 Portfolio diversification
  - 7.1.3.2 Capital Asset Pricing Theory (CAPT)
  - 7.1.3.3 Asset allocation principles
  - 7.1.3.4 Alpha and beta considerations

### **7.2 Securities analysis**

- 7.2.1 Analysis of the equities markets--market sentiment, advance/decline index, put/call ratio, market momentum, available funds, trading volume
- 7.2.2 Use of market indexes and averages in market analysis
- 7.2.3 Principal theories of equity market behavior
  - 7.2.3.1 Technical analysis

Basic chart patterns and key terms--trend lines, downtrends, uptrends, saucer, inverted saucer, head-and-shoulders, inverted head-and-shoulders, breakouts, resistance levels, support levels, accumulation/distribution, moving averages, trading channels, consolidation, stabilization, overbought, oversold
  - 7.2.3.2 Fundamental analysis

Financial statements--types of financial statements included in an annual report, importance of footnotes, key terms (assets, liabilities, shareholders' equity, depreciation, depletion, obsolescence)

Components of a balance sheet and methods of inventory valuation--LIFO, FIFO, fixed asset depreciation, straight line depreciation, modified accelerated depreciation, modified accelerated cost recovery system (MACRS)

Components of an income statement and calculations derived from an income statement: earnings before interest and taxes (EBIT), earnings before taxes (EBT), net profit or earnings after taxes (EAT)

Principal measurement tools in financial statement analysis--understanding of the following formulas and ability to interpret balance sheets, income statements, and other financial statements

Liquidity: Working Capital, Current Ratio, Quick Assets, Acid Test Ratio

Risk of Bankruptcy: Bond Ratio, Debt-to-Equity Ratio

Efficient Use of Assets: Inventory Turnover Ratio, Cash Flow

Profitability: Margin-of-Profit Ratio, Net Profit Ratio

Asset Coverage and Safety of Income: Net Asset Value per Bond, Bond Interest Coverage, Book Value per Share

Earnings per Share: Earnings per Common Share (EPS), Fully Diluted EPS, Price-Earnings Ratio, Dividend Payout Ratio, Current Yield

Competitiveness (Comparative Performance): Return on Common Equity

#### 7.2.4 Factors in comparison of mutual funds

7.2.4.1 Nonstatistical comparisons--investment objectives and policies, minimum purchase amounts, conversion privileges and reinvestment costs, various sales charge methods, withdrawal options, Letter of Intent (LOI), Right of Accumulation (ROA), diversified portfolio, eligibility for "conduit theory" application on distributions, no-load features on initial purchase or on reinvestments, early termination charges

7.2.4.2 Statistical comparisons--sales charges; distribution fees; performance over time in terms of growth, income, total return; expense ratio; comparison of front-end vs. back-end load charges over time; portfolio turnover

#### 7.2.5 Analysis of municipal securities

##### 7.2.5.1 Analysis of general obligation (GO) bonds

Characteristics of issuer--tax base, diversification of economic activity, budgetary practices, current financial condition, unfunded liabilities, population trends, tax collection record, history of debt repayment

Nature of issuer's debt--debt trends, schedule of debt service requirements, contemplated financing, relation of debt to the life of improvement

Factors affecting issuer's ability to pay--tax limitations; priority of claim; nontax revenues; tax rates, trends, comparisons; tax collection record; trends in assessed valuation; overlapping debt

Municipal debt ratios--net debt to assessed valuation, net debt to estimated valuation, net debt per capita

##### 7.2.5.2 Analysis of revenue bonds

Feasibility studies

Sources of revenue--user charges, concessions and fees, special taxes, rental or lease payments, legislative appropriation

Security, protective covenants of bond indenture (rate covenant, insurance covenant, maintenance, nondiscrimination covenant), financial reports and outside audits, restrictions on issuance of additional bonds (open-end indenture, closed-end indenture, project completion)

Flow of funds--types of funds and application of revenue (net revenue pledge, gross revenue pledge), debt service coverage

Earnings coverage

- 7.2.5.3 Sources of credit information--issuer, advisory councils and services of certain states, commercial research services, industry and general publications
- 7.2.5.4 Rating services
- 7.2.5.5 Credit enhancements

### **7.3 Sources of price and securities information**

- 7.3.1 Exchange-traded equities--consolidated trading; Consolidated Tapes
- 7.3.2 OTC-traded equities--Nasdaq National Market issues, national list (bid and asked quotations), national supplemental OTC (additional OTC quotes); OTC Bulletin Board; Nasdaq System, information available on each level of service: Level 1, Level 2, Level 3; interdealer listings, pink sheets
- 7.3.3 Corporate bonds--yellow sheets
- 7.3.4 Municipal securities--*The Blue List*, *The Bond Buyer*, Blue List ticker, Bond Buyer new issue worksheets, *Moody's Bond Survey*, Munifacts, Munibase, dealer offering sheets, broker's brokers communication systems, public newspapers and publications
- 7.3.5 Listed options--Options Price Reporting Authority (OPRA), financial newspapers

### **7.4 Sources of investment research information**

- 7.4.1 Publications of research departments of securities firms
- 7.4.2 Market indexes (e.g., DJIA, NYSE Composite, Wilshire)
- 7.4.3 Publications of investment advisory services--Moody's, Standard & Poor's, Value Line, and others
- 7.4.4 Municipal market indicators--The Blue List Total, *The Bond Buyer*, Placement Ratio Indexes, Twenty Bond GO Index, Eleven Bond GO Index, Thirty-Year Revenue Index, The Visible Supply

## Outline - Regulation Index

Note that the references and citations given here are current as of the time of this publication. If regulations are added, the Exchange will announce such additions in an Information Memo at least 90 days prior to inclusion in the examination.

Outline Section(s)	Rule/Law/Regulation/Manual/Document
1.1.1	NYSE 10, 345, 346; Amex 920; CBOE 9.3-9.5; MSRB G-3; NASD ROFP, Art. III, Sec. 32, 40; Art. IV & IV; NASD By-Laws, Art. II, Sec. 4; Art. IV, Sec. 2-3; NASD Schedule C, III (1)(b); State Laws
1.1.2	Investment Advisers Act of 1940
1.2	NYSE 113.20, 342, 472; Amex 481; CBOE 9.21; NASD ROFP, Art. III, Sec. 35; Phlx 605, 1049
1.2.1	Telephone Consumer Protection Act of 1991
1.2.4	NYSE 791; Amex 991; CBOE 9.21, Chapter IX; NASD ROFP, Art. III, Sec. 33, 35A; Securities Act of 1933, Rules 134, 134a; "Characteristics and Risks of Standardized Options"
1.2.5	NYSE 472; MSRB G21
1.2.6	NASD Guidelines Regarding Communications with the Public About Investment Companies and Variable Contracts
1.2.7	NASD ROFP Art. III, Sec. 35
2.1	CBOE 9.9
2.1.1	NYSE 405, 721; Amex 921, 923; CBOE 9.7, 9.9; NASD ROFP, Art. III, Sec. 1; Phlx 746, 1024, 1026
3.1.2	CBOE 9.9
3.3.2	NASD ROFP, Art. III, Sec. 1
3.3.6.1	NASD ROFP, Art. III, Sec. 34; ROFP, Appendix F, Sec. 1-2
3.3.6.5	NASD ROFP, Appendix F, Sec. 5
3.5.2	Investment Company Act of 1940, Sec. 2(a), 3(a)
3.5.2.1	NASD ROFP, Art. III, Sec. 26; Investment Company Act of 1940, Sec. 4-5, 10, 12(a), 13(a), 15(a), 16(a), 17(a), 18, 19, 21-23, 30, 35-37; Rules 12b-1, 22c-1, d-1, d-2; Internal Revenue Code, Subchapter M
3.5.3.1	NASD ROFP, Art. III, Sec. 29
3.5.4	REIT Act Amendment to Internal Revenue Code of 1954
3.6.1	NYSE 700-720, 725, 727-730, 750-793; Amex 900 Series, 900C Series; CBOE Constitution and Rules; NASD ROFP, Art. III, Sec. 33; NASD ROFP, Appendix A, Sec. 2; ROFP Appendix E, Sec. 2; Phlx 722, 1000-1065, 1000A Series; Options Disclosure Document
3.6.1.3	CBOE Reference Manual; NASD ROFP, Appendix E, Sec. 19
3.6.1.4	OCC Brochure, "Taxes and Investing"; Phlx Brochure, "Foreign Currency Options - Tax and Accounting Considerations"; Internal Revenue Code, Section 1256
4.1	NASD ROFP, Appendix E, Sec. 11

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4.1.1	NYSE 95, 402, 405-409, 721-724, 726; Amex 921-924; CBOE 9.7, 9.10, Chapter IX; NASD ROFP, Art. III, Sec. 2(4)(b), 2(4)(c), 15, 19, 20, 21(b), (c), (d), 22, 33; ROFP, Appendix E, Sec. 16-18; Phlx 1000-1008, 1025, 1027, 1029-1032, 1060-1065; 1000A Series Sec. 16-18; Uniform Gift to Minors Act (UGMA)
4.2	NYSE 32
4.2.1	NYSE 387, 405-411, 722-730, 732, 750-790, 792-793; Amex 921-924, 930; CBOE 9.10, 9.12, 9.14, Chapter IX; NASD ROFP, Art. III, Sec. 2(4)(b), 2(4)(c), 15, 21(c), (d), 22, 33; ROFP, Appendix E, Sec. 15-18; Phlx 1000-1008, 1025, 1027, 1029-1032, 1060-1065; 1000A Series; Securities Exchange Act of 1934, Rule 17a-4
4.2.1.1	NYSE 406, 407, 412, 431; NASD ROFP, Art. III, Sec. 28; Regulation T, 220.8(c)
4.2.2	"Prudent Man" Rule; State Laws, Blue Sky & Registration of Broker-Dealers
4.3.1	NYSE 402, 431; Regulation T, 220.2-220.5; Securities Exchange Act of 1934, Rule 8c-1
4.3.2	NYSE 342, 402, 405, 408, 431; Amex 462; CBOE Chapter XII; CBOE Margin Manual; NASD ROFP, Art. III, Sec. 30; NASD ROFP, Appendix A, Sec. 3; Regulation T, 220.2-220.6, 220.8(c), 220.18; Securities Exchange Act of 1934, Rules 8c-1, 11d, 15c3-3
4.3.3.1	NYSE 431; Amex 462; CBOE Chapter XII; CBOE Chapter XV and Margin Manual; NASD ROFP, Appendix A, Sec. 3; CBOE Margin Manual; Regulation T, 220.2-220.6, 220.18; Uniform Options Margin Requirements
4.3.3.2-3	NYSE 431; Regulation T, 220.2-220.5, 220.18
4.3.4.1	NYSE 440C.10; Regulation T, 220.7, 220.16; Securities Exchange Act of 1934, Rule 3b-3
4.3.4.2	NYSE 440B; Securities Exchange Act of 1934, Rule 10a-1
5.1.1	NYSE 435; CBOE Constitution and Rules; NASD ROFP, Art. III, Sec. 3, 5, 6, 18
5.1.2	NYSE 350; MSRB G-8, G-11-15, G-18-20; MSRB G-22-25, G-27, G-28, G-30-35; NASD ROFP, Art. III, Sec. 1, 3, 5, 6, 10, 16, 17, Sec. 21(c), (d), 22
5.1.3	NYSE 435; NASD ROFP, Art. III, Sec. 2(4)(b), 2(4)(c), 3, 5, 6, 18
5.1.4	MSRB G-22-25, G-27, G-28, G-30-35; NASD Code of Arbitration Procedure, Part 1, Sec. 1; Part II, Sec. 8
5.1.5	NASD ROFP, Articles IV & V
5.2.1.1	NASD ROFP, Art. III, Sec. 1
5.2.1.2	NASD ROFP, Art. III, Sec. 9
5.2.1.3	NASD ROFP, Art. III, Sec. 1
5.2.1.4	NASD ROFP, Art. III, Sec. 7, 8, 23-25
5.2.1.5	NASD ROFP, Art. III, Sec. 1; Securities Act of 1933, Rule 134
5.2.2.1	Securities Act of 1933 (General Topic)
5.2.2.2	Securities Act of 1933, Schedule A
5.2.2.3	Securities Act of 1933, Section 8

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5.2.2.7	Securities Act of 1933, Regulation A
5.2.2.8	Securities Act of 1933, Rules 144, 144A, 145, 215; Regulation D, Rules 501-506
5.2.2.9	State Laws, Blue Sky & Registration of Broker-Dealers
5.2.2.10	Trust Indenture Act of 1939
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5.3.1.3	NYSE 450-465; Securities Exchange Act of 1934, Section 14
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5.3.2	Securities Exchange Act of 1934, Rules 3a51-1, 15g-1-15g-6, 15g-8, 9
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6.2	NASD Uniform Practice Code
6.2.2	NYSE 64
6.2.2.1	NYSE 63
6.2.2.2	NYSE 64, 130 Series
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7.3.2	NASD Schedule D, Part I
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## Model Questions

### Closed-Stem

The stem (the part that poses the question) is a complete sentence, and thus concludes with a question mark. The options (answer choices) may be complete or incomplete sentences.

- Example* EE savings bonds can be described as which of the following?
- (A) Direct obligations of municipalities
  - (B) Direct obligations of the federal government \*
  - (C) Moral obligations of a local zoning board
  - (D) Moral obligations of state governments

### Open-Stem (Sentence Completion)

The stem is an incomplete statement, and the options represent conclusions to the sentence.

- Example* Liquidity is the degree of ease with which assets can be
- (A) purchased on credit
  - (B) converted into cash \*
  - (C) used as collateral
  - (D) transferred to other ownership

### Most/Least/Best

This case of the multiple-choice item requires selecting an option that is either better or worse than the others. The basis on which the evaluation is to be made is stated in the stem.

- Example* Which of the following BEST describes an aspect of partnership democracy?
- (A) An equal sharing agreement among limited and general partners
  - (B) The right of limited partners to examine partnership books and records \*
  - (C) Management by both limited and general partners
  - (D) Prohibitions against control by a single limited partner

### Except or Not

The "EXCEPT" case usually is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. If it is clearly more straightforward or less awkward to use "not," rather than "except," this is done. In either case, the stem may be open or closed.

- Example* All of the following are considered advantages of registered limited partnerships  
EXCEPT
- (A) professional management
  - (B) limited liability
  - (C) diversification of risk \*
  - (D) flow-through of income and expense

## Complex Multiple-Choice ("Roman Numeral" Format)

This type of question is used in two ways. In the following example, the task is to determine the correct sequence of a set of events or the correct ranking of a set of items from high to low.

**Example** In which order, from first to last, are the following actions performed during the underwriting of an issue of corporate securities?

- I. The holding of a due diligence meeting
- II. Investigation and analysis of the issuer
- III. The filing of a registration statement
- IV. The assignment of the effective date by the SEC

- (A) I, II, III, IV
- (B) II, III, I, IV \*
- (C) III, I, II, IV
- (D) IV, II, III, I

A second way in which the Roman numeral format is used is when more than one of the options may be a correct response.

**Example** Which TWO of the following are TRUE of all options sales literature?

- I. It must be preceded or accompanied by an options disclosure document.
- II. It must offer supporting documentation.
- III. It must contain projected performance figures for the firm's recommendations.
- IV. It may portray past performances of a member firm's recommendations.

- (A) I and II
- (B) I and IV \*
- (C) II and III
- (D) II and IV

If the stem does not state that only two of the Roman numeral options are true, the word "only" is included at the end of each lettered response option that does not include all of the Roman numerals, as in the example below.

**Example** Which of the following is(are) TRUE of all options sales literature?

- I. It must be preceded or accompanied by an options disclosure document.
- II. It must offer supporting documentation.
- III. It must contain projected performance figures for the firm's recommendations.
- IV. It may portray past performances of a member firm's recommendations.

- (A) III only
- (B) I and IV only \*
- (C) I, II and IV only
- (D) I, II, III, and IV

## Exhibits

Some of the questions required the use of job-related resources such as technical articles, charts, tables, tombstone ads, or others. Candidates are provided with copies of such materials as needed to answer the questions.

## Reference Materials

The following reference sources are offered to help candidates prepare for the Series 7 Examination. The list of texts is not comprehensive, but is a sample of the many texts on the securities industry available through bookstores and business libraries. Because some topics are addressed in multiple works, it is not necessary for candidates to read every work listed in a particular topic area.

Also listed are materials published by the self-regulatory organizations that are useful in preparing for the examination. In addition to the materials listed, the SROs publish glossaries of terms, explanations of securities products, and compliance procedures. Copies of federal securities laws and SEC rules may be purchased through the network of federal government printing offices.

In no way should inclusion of any work in the following list be taken as an endorsement of it by any organization involved in the preparation of this outline.

### General

*The Complete Words of Wall Street:  
The Professional's Guide to Investment Literacy*  
A. H. Pessin & J. A. Ross  
Business One Irwin  
Homewood, Illinois

*Dictionary of Finance and Investment Terms*  
J. Downes & J. E. Goodman  
Barron's Educational Series, Inc.  
Hauppauge, New York

*The NYIF Vest-Pocket Guide to Stock Brokerage Math*  
W. A. Rini  
New York Institute of Finance  
New York, New York

*Stock in Trade: A Guide to the World and Work of  
Wall Street*  
Securities Industry Association  
Dearborn Financial Publishing, Inc.  
Chicago, Illinois

### Account Maintenance (Also see regulatory entries)

*Appeal Securities Act Handbook*  
Appeal Printing Company, Inc.  
New York, New York

*Gifts of Securities or Money to Minors*  
J. F. Morley & R. O. Scribner  
Securities Industry Association  
New York, New York

*Securities Credit Transactions  
Regulations X, G, T and U*  
Board of Governors of the Federal Reserve System  
Washington, D.C.

*Understanding and Using Margin*  
M. J. Curley  
Probus Publishing  
Chicago, Illinois

### Securities Markets

*Capital Markets: Institutions and Instruments*  
F. J. Fabozzi & F. Modigliani  
Prentice-Hall, Inc.  
Englewood Cliffs, New Jersey

*Fed Watching and Interest Rate Projections*  
D. Jones  
New York Institute of Finance  
New York, New York

*The Federal Reserve System: Purposes and Functions*  
Board of Governors of the Federal Reserve System  
Washington, D.C.

*Foreign Exchange Markets in the United States*  
R. M. Kubarych  
Federal Reserve Bank of New York  
New York, New York

*The Handbook of the Bond and Money Markets*  
D. M. Darst  
McGraw-Hill, Inc.  
New York, New York

*How the Option Markets Work*  
J. Walker  
New York Institute of Finance  
New York, New York

***The Money Market: Myth, Reality and Practice***

M. Stigum  
Business One Irwin  
Homewood, Illinois

***Nasdaq Handbook***

Probus  
Chicago, Illinois

***The Stock Market (6th Ed.)***

R. Teweles & E. Bradley  
John Wiley & Sons  
New York, New York

**Securities Analysis**

***Graham & Dodd's Security Analysis (5th Ed.)***

S. Cottle, R. F. Murray, & F. E. Block  
McGraw-Hill, Inc.  
New York, New York

***Economics***

P. A. Samuelson  
McGraw-Hill, Inc.  
New York, New York

***Financial Analyst's Handbook:  
Portfolio Management, Vol. 1***

S. Levine (Ed.)  
Business One Irwin  
Homewood, Illinois

***Investment Analysis and Portfolio Management***

J. B. Cohen, E. D. Zinbarg & A. Zeikel  
Business One Irwin  
Homewood, Illinois

***Technical Analysis Explained***

M. J. Pring  
McGraw-Hill, Inc.  
New York, New York

***Understanding Financial Statements (5th Ed.)***

L. Probus  
Prentice-Hall, Inc.,  
Englewood Cliffs, New Jersey

**Direct Participation Programs**

***Federal Taxation of Partnerships and Partners,  
Vol. I & II***

W. S. McKee, W. F. Nelson & R. L. Whitmire  
Warren, Gorham and Lamont, Inc.  
Boston, Massachusetts

***Real Estate Limited Partnerships (2nd Ed.)***

T. S. Lynn & H. F. Goldberg  
John Wiley & Sons  
New York, New York

***Tax-Sheltered Investments***

R. J. Haft & P. M. Fass  
Clark Boardman Co., Ltd.  
New York, New York

**Debt Securities**

***The Appraisal of Municipal Credit Risk***

W. S. Smith  
Moody's Investor Service, Inc.  
New York, New York

***Buying and Selling Treasury Securities***

H. M. Berlin  
Business One Irwin  
Homewood, Illinois

***Fundamentals of Municipal Bonds (4th Ed.)***

Public Securities Association  
New York, New York

***Glossary of Municipal Securities Terms***

Municipal Securities Rulemaking Board  
Washington, D.C.

***The Handbook of Fixed-Income Securities (3rd Ed.)***

F. J. Fabozzi & I. M. Pollack  
Business One Irwin  
Homewood, Illinois

***The Handbook of Securities of the United States  
Government and Federal Agencies***

The First Boston Corporation  
Boston, Massachusetts

***An Investor's Guide to Real Estate Mortgage Conduits  
(REMICs)***

Public Securities Association  
New York, New York

***The Municipal Bond Handbook, Vol. I & II***

F. J. Fabozzi, S. Feldstein, I. Pollack & F. Zarb  
Business One Irwin  
Homewood Illinois

***The New Corporate Bond Market***

R. Wilson & F. J. Fabozzi  
Prentice-Hall, Inc.  
Englewood Cliffs, New Jersey

## **Options**

### ***Characteristics and Risks of Standardized Options***

(Options Disclosure Document)  
Amex, CBOE, NASD, NYSE, OCC, PSE, Phlx

### ***Interest Rate Options***

Chicago Board Options Exchange, Inc.  
Chicago, Illinois

### ***Options as a Strategic Investment***

L. G. McMillan  
New York Institute of Finance  
New York, New York

### ***The Options Manual***

G. L. Gastineau  
McGraw-Hill, Inc.  
New York, New York

## **Packaged Securities**

### ***Guide to Mutual Funds***

D. Rugg & N. Hale  
Business One Irwin  
Homewood, Illinois

### ***How Mutual Funds Work***

A. J. Fredman & R. Wiles  
Prentice-Hall, Inc.  
Englewood Cliffs, New Jersey

### ***Investment Companies and Variable Contracts***

P. K. Jones  
Pictorial Publishers, Inc.  
Indianapolis, Indiana

## **Publications of the Self-Regulatory Organizations**

### ***American Stock Exchange, Inc. Constitution and Rules***

American Stock Exchange  
86 Trinity Place  
New York, New York 10006

### ***Chicago Board Options Exchange Constitution and Rules***

Chicago Board Options Exchange  
LaSalle at Van Buren  
Chicago, Illinois 60605

### ***Municipal Securities Rulemaking Board Manual***

Municipal Securities Rulemaking Board  
1640 King Street, Suite 300  
Alexandria, Virginia 22314

### ***National Association of Securities Dealers, Inc. Manual***

NASD Media Source  
9513 Key West Avenue  
Rockville, Maryland 20850

### ***New York Stock Exchange, Inc. Constitution and Rules***

New York Stock Exchange, Inc.  
11 Wall Street  
New York, New York 10005

### ***Pacific Stock Exchange, Inc. Constitution and Rules***

Pacific Stock Exchange, Inc.  
301 Pine Street  
San Francisco, California 94104

### ***Philadelphia Stock Exchange, Inc. Manual***

Philadelphia Stock Exchange, Inc.  
1900 Market Street  
Philadelphia, Pennsylvania 19103

## **Other Regulatory**

### ***Regulation of Brokers, Dealers, and Securities Markets***

N. Wolfson, R. M. Phillips, & T. A. Russo  
Warren Gorham & Lamont Inc.  
Boston, Massachusetts

### ***Securities Law Compliance***

A. Pessin  
Business One Irwin  
Homewood, Illinois

### ***Securities Law Handbook***

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