

# Regulatory Notice

15-45

## Securities Trader Registration and Qualification Examination

### FINRA Announces Approval of and Implementation Date for Securities Trader and Securities Trader Principal Registration Categories and Related Qualification Examination, Fee and Continuing Education Requirements

**Implementation Date: January 4, 2016**

#### Executive Summary

The SEC recently approved FINRA's proposal to establish a registration category and qualification examination requirement for Securities Traders and Securities Trader Principals.<sup>1</sup> This *Notice* provides firms with information regarding the Securities Trader registration category and qualification examination (Series 57), Securities Trader Principal registration category, Series 57 examination fee and implementation of the new registration categories. In addition, the *Notice* provides firms with information regarding the Regulatory Element Continuing Education (CE) Program for Securities Traders.

Candidates for the Series 57 examination will be able to schedule and take the examination beginning on January 4, 2016. The content outline for the examination is available on FINRA's website.

The amended rule text is attached as Appendix A. The rules will be implemented on January 4, 2016.

Questions regarding this *Notice* should be directed to:

- ▶ Deborah Kase, Senior Qualifications Analyst, Testing and Continuing Education, at (212) 858-4069;
- ▶ Alexandra Toton, Manager, Testing and Continuing Education, at (240) 386-4677;

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#### Notice Type

- ▶ Rule Amendment

#### Suggested Routing

- ▶ Compliance
- ▶ Continuing Education
- ▶ Legal
- ▶ Operations
- ▶ Registration
- ▶ Senior Management

#### Key Topics

- ▶ Continuing Education
- ▶ Equity Trader
- ▶ Proprietary Trader
- ▶ Qualification Examinations
- ▶ Registration Categories
- ▶ Securities Trader Principals
- ▶ Securities Traders
- ▶ Series 55
- ▶ Series 56
- ▶ Series 57

#### Referenced Rules & Notices

- ▶ NASD Rule 1021
- ▶ NASD Rule 1021(a)
- ▶ NASD Rule 1022(a)
- ▶ NASD Rule 1031
- ▶ NASD Rule 1031(c)
- ▶ NASD Rule 1032(f)
- ▶ NASD Rule 1070(e)
- ▶ Regulatory Notice 15-28



Financial Industry Regulatory Authority

- ▶ Victoria Crane, Associate General Counsel, Office of General Counsel, at (202) 728-8104; or
- ▶ Afshin Atabaki, Associate General Counsel, Office of General Counsel, at (202) 728-8902.

## Background and Discussion

The SEC approved a proposed rule change to replace the current Equity Trader registration category and qualification examination (Series 55) with a Securities Trader registration category and Series 57 examination.<sup>2</sup> In addition, the SEC approved a Securities Trader Principal registration category for a principal with supervisory responsibility over securities trading activities.<sup>3</sup>

### A. Securities Trader Registration Category

Amended NASD Rule 1032(f) (Limited Representative – Equity Trader) replaces the Equity Trader registration category and Series 55 examination with the Securities Trader registration category and Series 57 examination. The amended rule provides that each associated person of a firm who is included within the definition of “representative” in NASD Rule 1031 (Registration Requirements) is required to register with FINRA as a Securities Trader if, with respect to transactions in equity (including equity options), preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis or the direct supervision of such activities. There is an exception from the Securities Trader registration requirement for any associated person of a firm whose trading activities are conducted principally on behalf of an investment company that is registered with the SEC pursuant to the Investment Company Act of 1940 and that controls, is controlled by or is under common control with the firm. In addition, amended NASD Rule 1032(f) provides that before registration as a Securities Trader may become effective, an applicant must pass the Series 57 examination. The Series 57 examination will qualify an associated person to function as a Securities Trader. There is no prerequisite registration requirement for Securities Trader registration.

An associated person registered as a Securities Trader will not be qualified to function in any other registered capacity unless he or she is qualified and registered in that other registration category.<sup>4</sup> For instance, a person registered as a Securities Trader will not be able to engage in any retail or institutional sales activities unless he or she is qualified and registered in the appropriate registration category, such as a General Securities Representative.

## **B. Securities Trader Principal Registration Category**

Amended NASD Rule 1022(a) (General Securities Principal) establishes a Securities Trader Principal registration category and requires each associated person of a firm who is included within the definition of “principal” in NASD Rule 1021 (Registration Requirements) with supervisory responsibility over the securities trading activities described in NASD Rule 1032(f), to qualify and register as a Securities Trader Principal.

To qualify for registration as a Securities Trader Principal, an associated person must be registered as a Securities Trader and pass the General Securities Principal qualification examination (Series 24). An associated person registered as a Securities Trader Principal will not be eligible to register as a General Securities Principal unless the person passes the appropriate prerequisite examination for General Securities Principal registration, such as the Series 7 examination. In this regard, NASD Rule 1022(a) provides that a person qualified and registered as a Securities Trader Principal may only have supervisory responsibility over the activities specified in NASD Rule 1032(f), unless the person is separately qualified and registered in another appropriate principal registration category, such as the General Securities Principal registration category.

## **C. Series 57 Examination Content and Fee**

The Series 57 examination will consist of 125 scored multiple-choice questions.<sup>5</sup> Candidates will be allowed 3 hours and 45 minutes to complete the examination. On the day of the examination, candidates will receive a report of their results both on screen and in paper format at the end of their examination session. The score report will indicate pass/fail status and a score profile indicating performance based on each major content area covered on the examination.

FINRA has published a content outline for the Series 57 examination. The content outline provides a comprehensive guide to the areas covered on the examination and is intended to familiarize candidates with the range of subjects covered by the examination. Firms may wish to use the content outline to structure or prepare training materials, develop lecture notes and seminar programs, and as a training aide for candidates. The content outline is divided into four major job functions that are performed by a Securities Trader: (1) Market Overview and Products; (2) Engaging in Professional Conduct and Adhering to Regulatory Requirements; (3) Trading Activities; and (4) Maintaining Books and Records and Trade Reporting. The number of questions assigned to each major job function reflects the key tasks performed by a Securities Trader and is listed in the table below.

**Job Functions and Number of Questions by Job Function**

| <b>Job Functions</b> |                                                                          | <b>Number of Questions</b> |
|----------------------|--------------------------------------------------------------------------|----------------------------|
| Function 1           | Market Overview and Products                                             | 22                         |
| Function 2           | Engaging in Professional Conduct and Adhering to Regulatory Requirements | 12                         |
| Function 3           | Trading Activities                                                       | 79                         |
| Function 4           | Maintaining Books and Records and Trade Reporting                        | 12                         |
| <b>Total</b>         |                                                                          | <b>125</b>                 |

FINRA will update, as needed, the content outline and questions used in the examination to reflect amendments to, or the introduction of, government and self-regulatory organization rules and regulations, changes in industry practice and the introduction of new products. Questions on new rules and regulations will be added to the pool of questions for this examination within a reasonable period of time of the effective dates of these rules and regulations. Questions on rescinded rules and regulations will be deleted promptly from the pool of questions. Candidates will be asked rules- and regulations-based questions pertaining only to rules and regulations that are effective at the time they take the examination.

The Series 57 examination is administered as a closed-book examination. The test administrator will provide white boards/dry erase markers and basic electronic calculators to candidates, who must return these materials to the test center administrator at the end of the testing session. Some examination questions may involve calculations. Only calculators provided by the test center administrators will be allowed to be used during the examination.

The Series 57 examination will be administered at test centers operated by Pearson VUE and Prometric professional testing center networks. Appointments to take the examination may be [scheduled](#) through either network.

The fee for the Series 57 examination will be \$120.

#### **D. Implementation of the Securities Trader and Securities Trader Principal Registration Categories**

The Securities Trader registration category and the Series 57 examination will become available in the Central Registration Depository (CRD®) system on January 4, 2016. Candidates will not be able to request the Securities Trader registration category or schedule an appointment to take the Series 57 examination until January 4, 2016.

##### **1. Current Representative Registrants**

A person registered as an Equity Trader in the CRD system on January 4, 2016, will be grandfathered as a Securities Trader without having to take any additional examinations and without having to take any other actions. Individuals who were registered as Equity Traders in the CRD system prior to January 4, 2016, will be eligible to register as Securities Traders without having to take any additional examinations, provided that no more than two years have passed between the date they were last registered as a representative and the date they register as a Securities Trader.<sup>6</sup>

##### **2. New Representative Registrants**

The Equity Trader registration category and the Series 55 examination will continue to be available in the CRD system until December 29, 2015, when the CRD system will become unavailable due to annual registration renewal processing. A person for whom an Equity Trader registration request has been made in the CRD system prior to December 29, 2015, but who has not yet taken the Series 55 examination, will take the Series 55 examination even if the examination is scheduled to be taken on or after December 29, 2015. If the person passes the Series 55 examination and meets the other registration requirements prior to January 4, 2016, he or she will be registered as an Equity Trader and then automatically converted to the Securities Trader registration category on January 4, 2016.

If the person for whom the Equity Trader registration request has been made in the CRD system prior to December 29, 2015, passes the Series 55 examination and meets the other registration requirements on or after January 4, 2016, he or she will be registered as a Securities Trader. If the person fails the Series 55 examination on or after January 4, 2016, and wishes to become registered as a Securities Trader, he or she must request the Securities Trader registration category in the CRD system and take the Series 57 examination.<sup>7</sup>

### 3. Principal Level Registrants

On or after January 4, 2016, any individual who supervises Securities Traders must maintain a Securities Trader Principal registration with FINRA. This includes associated persons who are currently registered as General Securities Principals and supervise Equity Traders. As such, firms will be required to file amended Forms U4 in the CRD system no later than 180 calendar days after January 4, 2016, to request the Securities Trader Principal registration category for applicable individuals. There will be no systematic conversion of the Securities Trader Principal registration category onto CRD. The passing of an additional securities examination (*e.g.*, Series 24) will not be required if no more than two years have passed between the date an individual was last registered as a principal and the date the individual registers as a Securities Trader Principal.

### E. Regulatory Element CE Program for Securities Traders

The personalized S101 CE Program will be the required CE program for Securities Traders. On January 4, 2016, the Regulatory Element CE Program for the S101 will be available via CE Online.<sup>8</sup> In addition, the S101 CE Program will include a fourth, personalized module that will allow the participant to select one of five job functions (Institutional Sales, Trading, Operations, Retail Sales or Investment Banking/Research) specific to his or her responsibilities as a registered person. As a result of this change, starting on January 4, 2016, the S101 CE Program will incorporate the S501 CE Program for Proprietary Traders. All individuals registered as Securities Traders on or after January 4, 2016, including Proprietary Traders currently subject to the S501 CE Program, will be subject to the personalized S101 CE Program. For more information regarding this transition, please visit: <http://www.finra.org/industry/ce-online-proprietary-traders>.

## Endnotes

1. See Securities Exchange Act Release No. 75783 (August 28, 2015), 80 FR 53369 (September 3, 2015) (Order Approving File No. SR-FINRA-2015-017) (Approval Order).
2. See *id.*
3. The national securities exchanges have also filed or will file proposed rule changes to replace the Proprietary Trader qualification examination (Series 56) with the Series 57 examination in their respective registration rules relating to securities trading activities. Further, the Series 57 examination will replace the Series 56 examination for those exchange registration categories, such as the Proprietary Trader Principal registration category, where the Series 56 examination was an acceptable prerequisite.  
  
As part of the proposed rule change, and in anticipation of the national securities exchanges filing similar proposed rule changes to replace the Series 56 examination with the Series 57 examination in the respective registration rules, FINRA also amended the Form U4 to replace: (1) the Equity Trader registration category with the Securities Trader registration category as well as references to the Series 55 examination with the Series 57 examination; (2) the Proprietary Trader registration category with the Securities Trader registration category as well as references to the Series 56 examination with the Series 57 examination; and (3) the Proprietary Trader Principal registration category with the Securities Trader Principal registration category.
4. See NASD Rule 1032(f).
5. Consistent with FINRA's practice of including "pre-test" questions on certain qualification examinations, which is designed to ensure that new examination questions meet acceptable testing standards prior to use for scoring purposes, the Series 57 examination will include ten additional, unidentified pre-test questions that will not contribute towards the candidate's score. Thus, the examination will consist of 135 questions, 125 of which will be scored. The ten pre-test questions will be randomly distributed throughout the examination.
6. See NASD Rule 1031(c) (Requirements for Examination on Lapse of Registration).
7. See NASD Rule 1070(e). See also [www.finra.org/industry/series 57](http://www.finra.org/industry/series-57) for more information on administrative tasks associated with the implementation of the Securities Trader registration category and changes to the Propriety Trader examination and registration category.
8. See [Regulatory Notice 15-28](#) (August 2015).

## APPENDIX A

Appendix A shows the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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### 1000. MEMBERSHIP, REGISTRATION AND QUALIFICATION REQUIREMENTS

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#### 1020. Registration of Principals

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#### 1022. Categories of Principal Registration

##### (a) General Securities Principal

(1) Each person associated with a member who is included within the definition of principal in Rule 1021, and each person designated as a Chief Compliance Officer on Schedule A of Form BD, shall be required to register with the Association as a General Securities Principal and shall pass an appropriate Qualification Examination before such registration may become effective unless such person's activities are so limited as to qualify such person for one or more of the limited categories of principal registration specified hereafter. A person whose activities in the investment banking or securities business are so limited is not, however, precluded from attempting to become qualified for registration as a General Securities Principal, and if qualified, may become so registered.

(A) Subject to paragraphs (a)(1)(B), (a)(2), [and] (a)(5) and (a)(6), each person seeking to register and qualify as a General Securities Principal must, prior to or concurrent with such registration, become registered, pursuant to the Rule 1030 Series, either as a General Securities Representative or a Limited Representative—Corporate Securities.

(B) through (C) No Change.

(2) through (5) No Change.

(6) (A) Each person associated with a member who is included within the definition of principal in Rule 1021 and who will have supervisory responsibility over the securities trading activities described in Rule 1032(f)(1) shall become qualified and registered as a Securities Trader Principal. To qualify for registration as a Securities Trader Principal, such person shall become qualified and registered as a Securities Trader under Rule 1032(f) and pass the General Securities Principal qualification examination. A person who is qualified and registered as a Securities Trader Principal under this subparagraph (A) may only have supervisory responsibility over the activities specified in Rule 1032(f)(1), unless such person is separately qualified and registered in another appropriate principal registration category, such as the General Securities Principal registration category.

(B) A person who is registered as a General Securities Principal shall not be qualified to supervise the trading activities described in Rule 1032(f)(1), unless such person has also become qualified and registered as a Securities Trader under Rule 1032(f) by passing the Securities Trader qualification examination and become registered as a Securities Trader Principal.

(b) through (h) No Change.

### 1030. Registration of Representatives

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### 1032. Categories of Representative Registration

(a) through (e) No Change.

#### **(f) [Limited Representative—Equity] Securities Trader**

(1) Each person associated with a member who is included within the definition of a representative as defined in Rule 1031 must register with the Association as a [Limited Representative—Equity] Securities Trader if, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities, other than any person associated with a member whose trading activities are conducted principally on behalf of an investment company that is registered with the Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by or is under common control, with the member.

(2) Before registration as a [Limited Representative—Equity] Securities Trader as defined in subparagraph (1) hereof may become effective, an applicant must[:]

[(A) be registered pursuant to Rule 1032, either as a General Securities Representative or a Limited Representative—Corporate Securities; and]

[(B)] pass [an appropriate] the Securities Trader [Q]qualification [E]  
examination [for Limited Representative—Equity Trader].

(3) A person registered as a Securities Trader shall not be qualified to function in any other registration category, unless he or she is also qualified and registered in such other registration category.

(g) through (i) No Change.

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