

Function 1: Seeks Business for the Broker-Dealer from Customers and Potential Customers

- 1.1 Contacts current and potential customers in person and by telephone, mail and electronic means; develops promotional and advertising materials and seeks appropriate approvals to distribute marketing materials**

Knowledge of:

- Standards and required approvals of public communications
- Types of communications (e.g., retail, institutional, correspondence)
- Seminars, lectures and other group forum requirements
- Product specific advertisements and disclosures
 - Investment company products and variable contracts

FINRA Rules

- 2210 – Communications with the Public
- 2211 – Communications with the Public About Variable Life Insurance and Variable Annuities
- 2212 – Use of Investment Companies Rankings in Retail Communications
- 2213 – Requirements for the Use of Bond Mutual Fund Volatility Ratings
- 2330 – Members’ Responsibilities Regarding Deferred Variable Annuities

SEC Rules and Regulations

Securities Act of 1933

- Section 5 – Prohibitions Relating to Interstate Commerce and the Mails
- Section 12 – Civil Liabilities Arising in Connection with Prospectuses and Communications
- 135a – Generic Advertising
- 135b – Materials Not Deemed an Offer To Sell or Offer To Buy Nor a Prospectus
- 156 – Investment Company Sales Literature
- 482 – Advertising by an Investment Company as Satisfying Requirements of Section 10
- 498 – Summary Prospectuses for Open-End Management Investment Companies

Securities Exchange Act of 1934

- 15c2-12 – Municipal Securities Disclosure

Investment Company Act of 1940

- 34b-1 – Sales Literature Deemed To Be Misleading

MSRB Rule

- G-21 – Advertising

- 1.2 Describes investment products and services to current and potential customers with the intent of soliciting business**

Knowledge of:

- Prospectus requirements (e.g., timeliness of information, preliminary prospectus (red herring), final prospectus)
- Process for bringing new issues to market (e.g., due diligence, registration statement, preliminary prospectus, final prospectus, underwriting agreement, selling group agreement, blue-sky laws and procedures)
- Official statements, preliminary official statements (POS), notice of sale for municipal securities
- Regulation D offerings

Series 6

- Intrastate offering and securities transactions exempted from registration, including Section 3(a)(11) of the Securities Act of 1933 and Rule 147 thereunder

FINRA Rules

- 3160 – Networking Arrangements Between Members and Financial Institutions
- 3170 – Tape Recording of Registered Persons by Certain Firms

SEC Rules and Regulations

Securities Act of 1933

- Section 2(b) – Consideration of Promotion of Efficiency, Competition, and Capital Formation
- Section 3 – Exempted Securities
- Section 17 – Fraudulent Interstate Transactions
- 134 – Communications Not Deemed a Prospectus

Securities Exchange Act of 1934

- 10b-3 – Employment of Manipulative and Deceptive Devices by Brokers or Dealers
- 15c2-8 – Delivery of Prospectus
- 17a-3 – Records To Be Made by Certain Exchange Members, Brokers and Dealers

Regulation D – Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933

- 500 – Use of Regulation D
- 501 – Definitions and Terms Used in Regulation D
- 502 – General Conditions to be Met
- 503 – Filing of Notice of Sale
- 504 – Exemption for Limited Offerings and Sales of Securities Not Exceeding \$5,000,000
- 506 – Exemption for Limited Offers and Sales Without Regard to Dollar Amount of Offering
- 507 – Disqualifying Provision Relating to Exemptions under Rules 504 and 506
- 508 – Insignificant Deviations from a Term, Condition or Requirement of Regulation D

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Function 2: Opens Accounts After Obtaining and Evaluating Customers' Financial Profile and Investment Objectives

2.1 Informs customers of the types of accounts and their appropriateness and provides disclosures regarding various account types and restrictions

Knowledge of:

- Types of accounts (*e.g.*, prime brokerage, advisory or fee-based)
- Account registration types (*e.g.*, tenants in common (TIC), community property, sole proprietorship, partnership, unincorporated associations)
- Requirements for opening customer accounts
- Retirement plans and other tax advantaged accounts
 - Transfers, rollovers, eligibility, distribution strategies and taxation (*e.g.*, types of allowable contributions, distribution options, taxation of distribution at retirement, age restrictions for distributions, permissible investments)
 - Employer-sponsored plans and ERISA (*e.g.*, 457, defined benefit, profit-sharing, stock options and stock purchase, non-qualified deferred compensation programs)
- Wealth events (*e.g.*, inheritance)
- Account registration changes and internal transfers

FINRA Rules

4512 – Customer Account Information

4514 – Authorization Records for Negotiable Instruments Drawn from a Customer's Account

4515 – Approval and Documentation of Changes in Account Name or Designation

Employee Retirement Income Security Act of 1974 (ERISA)

2.2 Obtains and updates customer information and documentation, including required legal documents, and identifies and escalates suspicious activity

Knowledge of:

- Customer screening (*e.g.*, customer identification program (CIP), know your customer (KYC), domestic or foreign residency and/or citizenship, corporate insiders, employees of broker-dealers or self-regulatory organizations (SROs))
- Information security and privacy regulations (*e.g.*, initial privacy disclosures to customers, opt-out notices, disclosure limitations, exceptions)
- Account authorizations (*e.g.*, power of attorney (POA), trust documents, corporate resolutions, trading authority, discretionary account documents)

FINRA Rule

2090 – Know Your Customer

NASD Rule

2510 – Discretionary Accounts

SEC Rules and Regulations

Regulation S-P – Privacy of Consumer Financial Information and Safeguarding Personal Information

Series 6

2.3 Makes reasonable efforts to obtain customer investment profile information including, but not limited to, the customer's other security holdings, financial situation and needs, tax status and investment objectives

Knowledge of:

- Essential facts regarding customers and customer relationships
- Financial factors relevant to assessing a customer's investment profile
 - Security holdings, other assets and liabilities, annual income, net worth, tax considerations
 - Other considerations (*e.g.*, age, marital status, dependents, employment, investment experience, home ownership and financing, employee stock options, insurance, liquidity needs)
- Investment objectives (*e.g.*, preservation of capital, income, growth, speculation)
- Reasonable-basis suitability, customer-specific suitability and quantitative suitability
- Investment strategies and recommendations to hold

FINRA Rules

- 2111 – Suitability
 - 2111.03 – Recommended Strategies
 - 2111.05 – Components of Suitability Obligations
- 2214 – Requirements for the Use of Investment Analysis Tools

MSRB Rule

- G-19 – Suitability of Recommendations and Transactions

2.4 Obtains supervisory approvals required to open accounts

Knowledge of:

- Required review, approvals and documentation for account opening and maintenance
- Physical receipt, delivery and safeguarding of cash or cash equivalents, checks and securities
- Circumstances for refusing or restricting activity in an account or closing accounts

FINRA Rules

- 3110 – Supervision
- 3120 – Supervisory Control System

MSRB Rule

- G-27 – Supervision

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Function 3: Provides Customers with Information About Investments, Makes Suitable Recommendations, Transfers Assets and Maintains Appropriate Records

3.1 Provides customers with information about investment strategies, risks and rewards, and communicates relevant market, investment and research data to customers

Knowledge of:

- Customer-specific factors that generally affect the selection of products (*i.e.*, customer's investment profile, including the customer's risk tolerance, investment time horizon and investment objectives, liquidity needs)
- Portfolio or account analysis and its application to product selection (*e.g.*, diversification, concentration, volatility, potential tax ramifications)
- Portfolio theory (*e.g.*, alpha and beta considerations, Capital Asset Pricing Model (CAPM))
- Fundamental analysis of financial statements and types of financial statements included in an annual report, importance of footnotes, material risk disclosures and key terms (*e.g.*, assets, liabilities, capital, cash flow, income)
- Balance sheet and methods of inventory valuation: last-in, first-out (LIFO), first-in, first-out (FIFO) and methods of depreciation

3.2 Reviews and analyzes customers' investment profiles and product options to determine suitable investment recommendations

Knowledge of:

- Types and characteristics of underlying securities
 - Equity securities
 - Debt securities
 - Options
 - Treasury securities
 - U.S. government agencies securities
 - Other types of debt securities and money market instruments, including but not limited to: corporate commercial paper, brokered certificates of deposit (CDs) and banker's acceptances
- Tax treatment
 - Conduit or pipeline theory, required distribution of income and realized capital gains
 - Capital gains and losses, dividend distributions (qualified and non-qualified), wash sales, holding periods
 - Determination of net long-term and short-term gains or losses
- Packaged products
- Investment companies, exchange-traded funds (ETFs), unit investment trusts (UITs)
 - Types of mutual funds: equity, fixed-income, money market, interval
 - Structure of investment companies (*e.g.*, open-end and closed-end funds)
 - Difference between retail and institutional money market
 - Fund objectives (*e.g.*, value, growth, income, balanced, international, sector, life cycle)
 - Characteristics of:
 - Open-end funds (*e.g.*, net asset value (NAV); forward pricing; offering price; exchange privileges within families of funds; fees and expenses: no load, load (front-end, back-end), distribution fees, management fees, nature of 12b-1 fees)
 - Closed-end funds: distributed in primary market at initial public offering (IPO) price, traded in secondary market

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- Sales practices (e.g., dollar-cost averaging (DCA), computing sales charge, breakpoints, market timing, late trading)
- Redemption (e.g., redemption price, payout or withdrawal plans, conversion privilege, restrictions, contingent deferred sales charge, tenders)
- Tax treatment of mutual funds
- Reinvestment of dividend income and capital gains distributions
- Fees, charges, and expenses
- Variable life insurance and annuity contracts
 - Characteristics and insurance features (e.g., minimum guarantees, death benefits, living benefits, riders)
 - Separate accounts (e.g., purpose, management of portfolio, investment policies, performance of account)
 - Valuation of a variable annuity contract (e.g., accumulation units, surrender value, annuitization units)
 - Purchasing or exchanging variable annuities (e.g., immediate annuity, charges, fees, penalties, right of accumulation (ROA), waiver of premium)
 - Annuitization: types of election, variable payout, assumed interest rate, relationship between assumed interest rate and actual rate of return
 - Tax treatment of variable annuity contracts during accumulation period and annuity period and taxation at surrender of contract
- General characteristics of municipal fund securities
- Purpose and characteristics of specific types of municipal fund securities:
 - Municipal fund securities including 529 college savings plans, local government investment pools (LGIPs), ABLE accounts
 - Change in beneficiary, rollovers, ownership, tax consequences of unqualified withdrawals

FINRA Rules

- 2320 – Variable Contracts of an Insurance Company
- 2341 – Investment Company Securities

SEC Rules and Regulations

- Securities Exchange Act of 1934
 - 15g-1 – Exemptions for Certain Transactions
- Investment Company Act of 1940
 - Section 2(a) – General Definitions
 - Section 6 – Exemptions
 - Section 8 – Registration of Investment Companies
 - Section 8(b) – Registration of Investment Companies
 - Section 10 – Affiliations or Interest of Directors, Officers and Employees
 - Section 11 – Offers of Exchange
 - Section 12 – Functions and Activities of Investment Companies
 - 12b-1 – Distribution of Shares by Registered Open-End Management Investment Company
 - Section 13(a) – Changes in Investment Policy (Prohibited actions for registered investment companies)
 - Section 16(a) – Board of Directors (Election of directors)
 - Section 18 – Capital Structure
 - Section 19 – Dividends
 - 19a-1 – Written Statement to Accompany Dividend Payments by Management Companies
 - 19b-1 – Frequency of Distribution of Capital Gains
 - Section 22 – Distribution, Redemption, and Repurchase of Redeemable Securities
 - 22c-1 – Pricing of Redeemable Securities for Distribution, Redemption and Repurchase

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22d-1 – Exemption from Section 22(d) to Permit Sales of Redeemable Securities at Prices Which Reflect Sales Loads Set Pursuant to a Schedule
22d-2 – Exemption from Section 22(d) for Certain Registered Separate Accounts
22e-1 – Exemption from Section 22(e) During Annuity Payment Period of Variable Annuity Contracts Participating in Certain Registered Separate Accounts
Section 23 – Distribution and Repurchase of Securities: Closed-End Companies
Section 30 – Periodic and Other Reports; Reports of Affiliated Persons
Section 35 – Unlawful Representations and Names
35d-1 – Investment Company Names
Section 36 – Breach of Fiduciary Duty
Section 37 – Larceny and Embezzlement

MSRB Rules

D-12 – Definition of Municipal Fund Securities
G-45 – Reporting of Information on Municipal Fund Securities

3.3 Provides appropriate disclosures regarding investment products and their characteristics, risks, services and expenses

Knowledge of:

- Required disclosures on specific transactions (*e.g.*, material aspects of investments, statement of additional information, material events, control relationships)
- Types of investment risk (*e.g.*, call, systematic and nonsystematic, reinvestment, timing)
- Types of investment returns (*e.g.*, tax-exempt interest, return of capital)
- Costs and fees associated with investments (*e.g.*, markups, commissions, net transactions, share classes, non-discretionary fee-based accounts, surrender charges, 12b-1 fees, mortality and expense charges in variable products, soft dollar arrangements)
- Tax considerations (*e.g.*, unification of gift and estate taxes, lifetime exclusion, annual gift limit, taxation of securities received as a gift, inheritance of securities)
- Market analysis considerations (*e.g.*, market sentiment, market indices, market momentum, available funds)

FINRA Rule

2165 – Financial Exploitation of Specified Adults

3.4 Communicates with customers about account information, processes requests and retains documentation

Knowledge of:

- Customer confirmations and statements, including components, timing, mailings to third parties, and exceptions
- Account value, profits and losses, realized and unrealized
- Customer account records (*e.g.*, updating for change of address, sending required notifications, investment objectives)
- Books and records retention requirements
- Account closure procedures

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FINRA Rules

- 2232 – Customer Confirmations
- 2273 – Educational Communication Related to Recruitment Practices and Account Transfers
- 4510 – Books and Records Requirements
- 11870 – Customer Account Transfer Contracts

NASD Rule

- 2340 – Customer Account Statements

SEC Rules and Regulations

- Securities Exchange Act of 1934
 - 10b-10 – Confirmation of Transactions
 - 17a-4 – Records To Be Preserved by Certain Exchange Members, Brokers and Dealers
 - 17a-8 – Financial Recordkeeping and Reporting of Currency and Foreign Transactions

MSRB Rules

- G-8 – Books and Records To Be Made by Brokers, Dealers, and Municipal Securities Dealers and Municipal Advisors
- G-9 – Preservation of Records
- G-15 – Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers
- G-26 – Customer Account Transfers

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Function 4: Obtains and Verifies Customers' Purchase and Sales Instructions; Processes, Completes and Confirms Transactions

4.1 Provides current quotes

Knowledge of:

- Orders, offerings and transactions in customer accounts
- Trade execution activities
- Best execution obligations

FINRA Rule

5310 – Best Execution and Interpositioning

SEC Rules and Regulations

Securities Exchange Act of 1934

15g-4 – Disclosure of Compensation to Brokers or Dealers

4.2 Processes and confirms customers' transactions pursuant to regulatory requirements and informs customers of delivery obligations and settlement procedures

Knowledge of:

- Delivery requirements and settlement of transactions
- Information required on an order ticket (e.g., symbol, account number, price)
- Use of automated execution systems

FINRA Rules

5330 – Adjustment of Open Orders

6140 – Other Trading Practices

11000 Series – Uniform Practice Code

SEC Rules and Regulations

Securities Exchange Act of 1934

15c6-1 – Settlement Cycle

Federal Reserve

Regulation T – Credit by Brokers and Dealers

MSRB Rule

G-12 – Uniform Practice

4.3 Informs the appropriate supervisor and assists in the resolution of discrepancies, disputes, errors and complaints

Knowledge of:

- Erroneous reports, errors, cancels and rebills
- Requirements for addressing customer complaints and consequences of improper handling of complaints
- Methods of formal resolution (e.g., arbitration, mediation, litigation)
- Form U4 reporting requirements

Series 6

FINRA Rules

- 4513 – Records of Written Customer Complaints
- 4530 – Reporting Requirements
- 8000 Series – Investigations and Sanctions
- 12000 Series – Code of Arbitration Procedure for Customer Disputes
- 13000 Series – Code of Arbitration Procedure for Industry Disputes
- 14000 Series – Code of Mediation Procedure