

MEMO# 29089

June 15, 2015

FINRA Publishes for Comment a Concept Proposal to Restructure its Qualification Examinations

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TO: BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 19-15
OPERATIONS COMMITTEE No. 11-15
SMALL FUNDS COMMITTEE No. 13-15
TRANSFER AGENT ADVISORY COMMITTEE No. 29-15 RE: FINRA PUBLISHES FOR COMMENT A
CONCEPT PROPOSAL TO RESTRUCTURE ITS QUALIFICATION EXAMINATIONS

The Financial Industry Regulatory Authority (FINRA) is seeking comment on a concept proposal to eliminate its current examination format and replace it with a brand new format that would require the passage of at least two examinations prior to acting in the capacity of a registered representative. [\[1\]](#) These two examinations would consist of a Securities Industry Essentials (SIE) examination and a specialized knowledge examination that would consist of content specific to the registration category or job function to be held by the representative. FINRA's proposal is discussed in more detail below.

Comments are due to FINRA no later than July 27, 2015. The Institute plans to file a comment letter with FINRA supporting the proposed restructuring. If members have any issues they would like the Institute to raise in our comment letter, please provide them to the undersigned no later than June 30th.

Overview of FINRA's Concept Proposal

As noted above, FINRA proposes to replace its existing examination format with a new format that, in FINRA's view, would be more efficient for registrants. The components of this new format would be the new SIE examination and the various specialized knowledge examinations that FINRA proposes to develop to take the place of the existing specialized exams (e.g., the Series 6 and 7 examinations). [\[2\]](#) Importantly, all registered representatives of FINRA would be grandfathered into the new format without the need to pass additional examinations to maintain existing licenses. Should such persons want to expand their current licenses, they will be deemed to have passed the SIE and only be required to pass the specialized examinations that would qualify the representative for the new area of specialization. The costs of these new exams has not yet been determined.

The Securities Industry Essentials (SIE) Examination

Passage of the SIE would be a prerequisite for taking any specialized examination and becoming a registered representative. The SIE is expected to consist of 75-100 questions. Its contents “would include knowledge fundamental to working in the securities industry, such as basic product knowledge; structure and functioning of the securities industry markets, regulatory agencies and their functions; and regulated and prohibited practices.” [3] According to FINRA’s draft outline, the four major topic areas of the SIE are expected to be: [4]

- Knowledge of Capital Markets, which would focus on issues such as types of markets and offerings, broker-dealers and depositories, and economic cycles;
- Understanding Products and Their Risks, which would cover securities products at a high level as well as associated investment risks;
- Understanding Trading, Customer Accounts, and Prohibited Activities, which would focus on accounts, orders, settlement, and prohibited activities; and
- Overview of the Regulatory Framework, which would cover issues relating to SROs, registration requirements, and specified conduct rules applicable to all registrants.

FINRA has proposed to test a person’s knowledge of each of these areas through the SIE rather than through the variety of FINRA exams (as is the current practice). Interestingly, a person taking the SIE is not required to be associated with a FINRA member – any interested person can take the SIE. Also, unlike FINRA’s current examinations, which expire two years after a representative leaves the business, the SIE results will remain valid for four years after the representative leaves the business. [5]

Specialized Examinations

As noted above, to work in the capacity of a registered representative, a person would have to pass the SIE as well as a specialized knowledge examination that would be relevant to the representative’s proposed business. FINRA is proposing to develop specialized examinations for the following representative categories: [6]

- Investment Company and Variable Contracts Products Representative;
- General Securities Representative;
- Direct Participation Program Representative;
- Equity Trader;
- Investment Banking Representative;
- Private Securities Offering Representative;
- Research Analyst; and
- Operations Professional.

FINRA expects that the specialized examination for General Securities Representative would consist of 100-150 questions (versus the current 250 questions on the Series 7) and the examination for the Investment Company and Variable Contracts Products Representative would likely consist of 50-75 questions. A representative could take a specialized examination on the same day as taking the SIE. As is the current practice, all examinations will be administered through testing centers.

Proposed Phase-In of the New Examination Format

FINRA is proposing to implement the new examination structure in two phases. The first phase would consist of the SIE and specialized knowledge examinations for the General Securities Representative and the Investment Company and Variable Contracts Products Representative. [Consistent with FINRA’s experience with the Series 6 and 7 examinations,

these specialized examinations are expected to be the most common tests taken by registrants.] The second phase would consist of the remaining specialized examinations. Pending SEC approval, FINRA would like to roll out the first phase of this new format by the fourth quarter of 2016. The second phase would follow during the first half of 2017.

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endnotes

[1] See FINRA Requests Comment on a Concept Proposal to Restructure the Representative-Level Qualification Examination Program, FINRA Notice 15-20 (May 2015) (the “FINRA Notice”). The FINRA Notice is available at: http://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-20.pdf.

[2] At this time, FINRA is not proposing any revisions to the examinations required of principals.

[3] FINRA Notice at p. 1.

[4] See Appendix A to the FINRA Notice for more detail regarding the topics covered in each of these areas.

[5] Cf. the specialized examinations, which, like the current examinations, will expire two years after the representative leaves the business.

[6] A chart on page 10 of the FINRA Notice shows the proposed examination structure at a glance.