

MEMO# 10922

April 21, 1999

UPDATE ON NASAA COMPETENCY EXAMINATION FOR INVESTMENT ADVISER REPRESENTATIVES (SERIES 65)

[10922] April 21, 1999 TO: INVESTMENT ADVISERS COMMITTEE No. 3-99 RE: UPDATE ON NASAA COMPETENCY EXAMINATION FOR INVESTMENT ADVISER REPRESENTATIVES (SERIES 65) _____ During the NASAA Spring Conference this week, NASAA's member states and the industry were provided an update on the status of the new Series 65 examination for investment adviser representatives. This Memorandum will summarize the information presented at the Conference. Differences Between the Current Series 65 and the Proposed Series 65 The current Series 65 examination, the Uniform Investment Adviser Law Examination, was designed to test a person's knowledge of state and federal securities laws and regulations governing investment advisers. It consists of 75 multiple choice questions; applicants are allowed 90 minutes to complete the exam; and the cost of the exam is \$75. By contrast, the new Series 65 examination is designed to assess an applicant's "competency" to be an investment representative by testing in four different areas: (1) Economics and Analysis; (2) Investment Vehicles; (3) Investment Recommendations and Strategies; and (4) Ethics and Legal Guidelines. An outline for the examination, which provides more details about each of these areas, can be found on the NASAA web site at "www.nasaa.org." The examination will consist of 130 questions plus 10 "pre-test items." Candidates are expected to be given 3 hours to take the test. The cost of the examination will be \$110. Like the existing Series 65, the examination is expected to be required of all persons who apply for registration as an investment adviser representative, regardless of the duties they perform, unless the examination is waived by a state. Implementation During the Conference, NASAA recommended to each of its member states that they determine what action must be taken in their state in order to begin accepting the new Series 65 in lieu of the existing Series 65. According to NASAA, once a "critical mass" of states is able to accept the new examination, NASAA will notify the NASD, which will administer the exam, and the industry that 90 days from that date, the new Series 65 will replace the current Series 65. (In the meantime, NASAA has provided the necessary information on the examination to vendors who develop study materials for the examination.) Upon the passage of the 90 days, all persons required by law to take the Series 65 exam will take the new exam and not the old one. It is not currently known how many states will be considered the necessary "critical mass" to trigger this 90 day period or which version of the examination will be required in those states whose laws have not been amended to accept the new exam by the time it replaces the old exam. Waivers; Grandfathering NASAA has recommended that states amend their examination requirements to: ! Rescind all examinations, except the Series 65, for persons that will be registered solely as investment adviser representatives; ! Exempt from the

examination requirement "any person licensed as an investment adviser representative in any jurisdiction on the effective date of the new Series 65 exam," unless the person has been out of the business for at least two years and the person's state licenses have lapsed; and ! Waive the Series 65 for persons holding the following designations: CFP, CFA, ChFC, PFS, and CIC. The Series 66: Persons Dually Registered with an Adviser and a Broker-Dealer For those investment adviser representatives that are also registered as a representative of a broker-dealer, NASAA has recommended that, in lieu of the new Series 65 examination, states require such persons to take a new Series 66 examination. A prerequisite for taking the Series 66 examination is passage of the NASD Series 7 examination. Importantly, the Series 66 is not an option to the Series 65 for those persons that have passed the NASD Series 6 examination. The Series 66 will consist of those questions from the new Series 65 examination that do not duplicate questions asked on the Series 7. The Series 66 will test an applicant's knowledge of: (1) investment analysis, recommendations and strategies; and (2) ethics and legal guidelines governing investment advisers. As with the Series 65, the outline for the new Series 66 is available through NASAA's web site. The Series 66 will consists of 100 items plus 10 "pretest items;" will cost \$110; and is expected to take 150 minutes to complete. NASAA's recommendations regarding waivers and grandfathering apply to the Series 66 as well; and NASAA plans to begin administering the Series 66 at the same time as the Series 65. * * * * * A copy of the Exam Specifications for the Series 65, which details the contents and number of questions relating to the specific content, is attached. Tamara K. Reed Associate Counsel Attachment

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.