

COMMENT LETTER

July 24, 2015

ICI Files Comment Letter with FINRA on Its Proposal to Restructure Its Qualification Examinations (pdf)

July 21, 2015 Ms. Marcia E. Asquith Office of the Corporate Secretary FINRA 1735 K Street, NW Washington, DC 20006-1506 Re: Proposed Examination Restructuring FINRA Notice 15-20 (May 2015) Dear Ms. Asquith: The Investment Company Institute¹ is pleased to support FINRA's proposal to restructure its qualification examination program.² FINRA proposes to replace its current examination program with a new program wherein it requires all new broker-dealer registered representatives to take both a general knowledge examination and the appropriate specialized knowledge examination(s). As proposed, the general knowledge examination would test knowledge that is fundamental to working in the securities industry, such as basic product knowledge, structure and functioning of the securities markets, and regulated and prohibited practices. The specialized knowledge examinations would test content specific to the representative's registration category or job function. Representatives who are currently

¹ The Investment Company Institute (ICI) is a leading, global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of \$18.2 trillion and serve more than 90 million U.S. shareholders. ² FINRA Requests Comment on a Concept Proposal to Restructure the Representative-Level Qualification Examination Program, FINRA Notice 15-20 (May 2015) ("FINRA Notice"), which is available at: http://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-20.pdf . Ms. Marcia E. Asquith July 21, 2015 Page 2 registered would not be required to requalify for registration by taking these new examinations so long as their current registrations (and examinations) remain valid. In addition to restructuring the examination format, FINRA proposes to permit any interested person to take the general knowledge examination.³ Unlike the current examinations, which are only valid for up to two years after a representative ceases working in a registered capacity, the new general knowledge exam would be valid for four years.⁴ According to the FINRA Notice, FINRA arrived at the proposed structure after conducting a review of its current examination program structure and consulting with a variety of outside groups. Their objective in this process was to: □ Reduce the redundancy of subject matter content across examinations; □ Identify opportunities to simplify the examination requirements; □ Limit the impact of any alternative structure on the registration rules; and □ Identify and eliminate outdated

registrations (and their associated qualifying examination) that currently have limited utility (e.g., options representatives). While the pricing of these new examinations has yet to be determined, according to FINRA, it plans to conduct a pricing analysis to determine a fair and reasonable cost for them. As noted in the FINRA Notice, “FINRA believes that the fee for the specialized knowledge examinations will be lower than that of their current corresponding examination.”⁵ Pending necessary regulatory approvals, FINRA plans to roll out this new examination structure during the fourth quarter of 2016. Such rollout would include both the general knowledge examination and the specialized knowledge examinations for the Investment Company and Variable Contracts Products Representative (currently the Series 6 examination), the General Securities Representative (Series 7), and the Investment Banking Representative (Series 79) registration categories.

3 Currently, an individual must be associated with a FINRA member firm prior to taking an examination. While FINRA proposes to permit any person to take the general knowledge examination, only those representatives associated with a member firm would be eligible to take the specialized examinations. 4 Like the current qualifying examinations, the validity of the new specialized examinations would expire two years after the person is no longer associated with a member firm. 5 FINRA Notice at p. 14. Ms. Marcia E. Asquith July 21, 2015 Page 3 As noted above, the Institute supports FINRA’s proposed restructuring of its existing qualification examination program. The new format should result in a more efficient structure and obviate the need for representatives to repeatedly demonstrate their general securities knowledge each time they take a new examination. We also are pleased that FINRA is proposing to include, as part of its initial roll out of the new structure, a specialized knowledge examination for Investment Company and Variable Contracts Products Representatives. As FINRA implements this new examination structure, we encourage it to consider two issues. The first issue relates to the pricing of the new examinations. In particular, we recommend that, to the extent practicable, the pricing for this new bi-furcated examination not exceed the current examination fees. Indeed, FINRA’s reforms are, in part, intended to reduce examination redundancies and simplify existing requirements. Reducing redundancies and simplifying the existing requirements should result in reducing, not increasing, examination fees. We are pleased that FINRA plans to conduct a pricing analysis to determine the examination fees and assess the potential impacts on member firms and individuals and to include this analysis in a rule filing with the SEC. We urge FINRA to seek comment on any such filing. The second issue relates to permitting persons not associated with a FINRA member to take the general knowledge examination. Though the Institute is fully supportive of this reform, we believe that FINRA should take special precautions to ensure that such persons not abuse the privilege granted to them by FINRA. While we are aware that all persons taking FINRA examinations are subject to FINRA’s Rules of Conduct,⁶ we encourage FINRA to take special precautions in connection with offering the general knowledge examination to persons who are not associated with a member firm. In particular, we believe that FINRA, either through affirmations on the examination application or through the adoption of new rules, should make clear that any person who is not associated with a member firm who takes and passes the general knowledge examination is prohibited from holding themselves out to the public as having passed the examination. We are concerned that persons who never become representatives of FINRA or never become associated with a FINRA member (e.g., a person who sells insurance under state insurance laws but who is not associated with a FINRA member) might tout passage of FINRA’s general knowledge examination to customers and potential customers as demonstrating their competency or business acumen. Currently FINRA Rule 2210(e) of FINRA’s Rules of Conduct, which governs communications with the public, prohibits a FINRA member from implying that FINRA has endorsed the member’s business practices, selling

methods, or securities offered. However, this prohibition is expressly limited to FINRA members. The Institute wonders what, if any, enforcement options

6 FINRA Notice at p. 6 and endnote 4. Ms. Marcia E. Asquith July 21, 2015 Page 4 FINRA has in the event that non-registrants imply some type of FINRA endorsement as a result of passing the general knowledge examination. We strongly recommend that FINRA determine how to address such potential abuses prior to them occurring and prior to permitting representatives of non- members to take a FINRA examination. With the above caveats, the Institute is pleased to support FINRA's proposal and we look forward to working with our members as they implement it with their newly hired representatives. If you have any questions concerning our comments, please contact the undersigned by phone (202-326- 5825) or email (tamara@ici.org). Regards, /s/ Tamara K. Salmon Associate General Counsel

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