

## Qualification Examinations

### FINRA Revises the Series 16 Examination Program

Implementation Date: October 28, 2013

#### Executive Summary

FINRA periodically reviews the content of qualification examinations to determine whether revisions are necessary or appropriate in view of changes—including changes to the laws, rules and regulations—pertaining to the subject matter covered by the examinations. Based on this review process, FINRA has revised the Supervisory Analyst (Series 16) examination program.<sup>1</sup>

The changes are reflected in the [Series 16 content outline](#) on FINRA's website, and will appear in Series 16 examinations administered on or after October 28, 2013.

Questions regarding this *Notice* should be directed to:

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#### Background & Discussion

Section 15A(g)(3) of the Securities Exchange Act of 1934 authorizes FINRA to prescribe standards of training, experience and competence for persons associated with FINRA-regulated firms. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA-regulated firms have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules.

#### August 2013

##### Notice Type

- ▶ Guidance

##### Suggested Routing

- ▶ Compliance
- Legal
- Operations
- Registration
- Training

##### Key Topics

- ▶ Qualification Examination
- ▶ Supervisory Analyst (Series 16)

##### Referenced Rules & Notices

- ▶ FINRA Rule 2210
- ▶ FINRA Rule 5280
- ▶ Information Notice 3/12/08
- ▶ NASD IM-2110-4
- ▶ NASD Rule 1050
- ▶ NASD Rule 2711
- ▶ NYSE Rule 344 and its Interpretation
- ▶ NYSE Rule 472
- ▶ SEA Section 15A(g)(3)
- ▶ Securities Act Rule 137

Incorporated NYSE Rules 344, 344.11 and 472(a)(2)<sup>2</sup> and NYSE Rule Interpretations 344/03 and /04 require an individual who is responsible for approving research reports at a dual member to be registered and qualified as a Supervisory Analyst.<sup>3</sup> The individual is required to present evidence of appropriate experience (which is having at least three years prior experience within the immediately preceding six years involving securities or financial analysis) and pass the Supervisory Analyst (Series 16) qualification examination. Rather than passing the entire Supervisory Analyst qualification examination, the individual may obtain a waiver from Part II of the Supervisory Analyst qualification examination upon verification that the person has passed Level I of the Chartered Financial Analyst (CFA) examination. NYSE Rule 472(a)(2) further provides that where a Supervisory Analyst lacks technical expertise in a particular product area that is the subject of a research report, the content in the report may be co-approved by a product specialist; if no such expertise resides within the firm, the rule requires the firm to arrange approval by a qualified outside Supervisory Analyst.

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 16 examination program. As a result of this review, FINRA has revised the content outline to reflect changes to the laws, rules and regulations covered by the examination, and to incorporate the functions and associated tasks currently performed by a Supervisory Analyst. FINRA also has made changes to the format of the content outline.

## Revisions

FINRA has renamed Part I and Part II of the outline and included two major job functions under each part. The following are the renamed parts and major job functions, with the associated number of questions:

### Part I. Regulations:

Function 1: Review and approve research analysts' communications to ensure compliance with applicable SEC and FINRA rules and regulations, and firm policies and procedures (34 questions); and

Function 2: Serve as liaison between the research department and other internal and external parties (16 questions).

### Part II. Valuation of Securities:

Function 1: Review the content of the report to assess the accuracy, consistency and sources of data and calculations included in the report (16 questions); and

Function 2: Review the content of the report to ensure a reasonable basis exists for the analyst's conclusions (*e.g.*, price targets, recommendations, ratings, estimates, valuation parameters) (34 questions).

Each function also includes specific tasks describing activities associated with performing that function. There are five tasks (T1 through T5) associated with Part I, Function 1; four tasks (T6 through T9) associated with Part I, Function 2; three tasks (T1 through T3) associated with Part II, Function 1; and six tasks (T4 through T9) associated with Part II, Function 2. For example, one such task (T5, Part I, Function 1) is to verify that a research report includes all applicable required disclosures. In addition, the outline lists with respect to Part I the laws, rules and regulations a candidate is expected to know to perform the functions and associated tasks outlined in that part. These include the applicable FINRA rules (*e.g.*, FINRA Rule 2210), NASD rules (*e.g.*, NASD Rule 2711), NYSE rules (*e.g.*, NYSE Rule 344) and SEC rules (*e.g.*, Securities Act Rule 137). Further, the outline lists with respect to Part II the technical and analytical knowledge (*e.g.*, analysis of packaged securities) required to perform the functions and associated tasks outlined in that part.

FINRA conducted a job analysis study of Supervisory Analysts, which included the use of a survey, in developing the functions and tasks and updating the required knowledge set forth in the revised outline. The functions and tasks, which appear in the revised outline for the first time, reflect the day-to-day activities of a Supervisory Analyst.

FINRA also has revised the outline to reflect the adoption of rules in the consolidated FINRA rulebook (*e.g.*, NASD IM-2110-4 (Trading Ahead of Research Reports) was consolidated as FINRA Rule 5280 (Trading Ahead of Research Reports)).<sup>4</sup>

In conjunction with the changes to the content outline, FINRA has made changes to the weighting of questions on content outline topics and to the question bank for the Series 16 examination.

Finally, FINRA has made changes to the format of the content outline, including the preface, sample questions and reference material.

The number of questions on the Series 16 examination remains at 100 multiple-choice questions (50 multiple-choice questions for each part), and candidates continue to have one and one-half hours to complete Part I of the examination and two hours to complete Part II. A score of 72 percent is required to pass Part I of the examination, and a score of 74 percent is required to pass Part II, which are the same as the current passing scores.

## Availability of Content Outline

The revised [Series 16 content outline](#) is available on FINRA's website.

## Endnotes

1. See File No. SR-FINRA-2013-032, which was filed with the SEC for immediate effectiveness on August 20, 2013.
2. The current FINRA rulebook consists of (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE (Incorporated NYSE Rules) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the “Transitional Rulebook”). While the NASD Rules generally apply to all FINRA member firms, the Incorporated NYSE Rules apply only to those member firms of FINRA that are also member firms of the NYSE (dual members). The FINRA Rules apply to all FINRA member firms, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see *Information Notice, March 12, 2008* (Rulebook Consolidation Process). For convenience, the Incorporated NYSE Rules are henceforth referred to as the NYSE Rules.
3. In addition, pursuant to FINRA Rules and NASD Rules, a Supervisory Analyst may approve: (1) research reports on debt and equity securities; (2) retail communications that are excepted from the definition of “research report” under NASD Rule 2711(a)(9)(A); (3) other research that does not meet that definition of “research report” under NASD Rule 2711(a)(9), provided that the Supervisory Analyst has technical expertise in the particular product area and any other required registrations; (4) third-party research reports; and (5) globally-branded research reports prepared by foreign research analysts. See NASD Rule 1050(f)(3)(A); FINRA Rule 2210(b)(1)(B) and NASD Rule 2711(h)(13)(C). Accordingly, in addition to testing knowledge of applicable NYSE Rules, the Series 16 examination program tests knowledge of applicable FINRA Rules and NASD Rules.
4. See also FINRA’s Rule Conversion Charts.