



July 17, 2015

By Electronic Mail (pubcom@finra.org)

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, N.W.
Washington, DC 20006-1506

Re: Regulatory Notice 15-20: FINRA Requests Comment on a Proposal to Restructure the Representative-Level Qualification Examination Program

Dear Ms. Asquith:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ appreciates the opportunity to provide comment on a concept proposal by the Financial Industry Regulatory Authority (“FINRA”) to restructure the representative-level qualification examination program.²

I. INTRODUCTION & BACKGROUND

In Regulatory Notice 15-20 (“RN 15-20” or the “Proposal”), FINRA solicits comment on a concept proposal to restructure the current representative-level qualification examination program into a format whereby all representative-level registrants would take a general knowledge examination (referred to as the Securities Industry Essentials Examination, or “SIE”) and an appropriate specialized knowledge examination to reflect their particular registered role.

The SIE would (1) test knowledge fundamental to working in the securities industry, (2) not require an individual to be associated with a member firm, and (3) be

¹ SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over \$2.4 trillion for businesses and municipalities in the U.S., serving clients with over \$16 trillion in assets and managing more than \$62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

² See generally FINRA Regulatory Notice 15-20 (May 27, 2015) (available at: http://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-20.pdf) [last visited July 14, 2015].

valid for four years. The specialized examinations would correlate to the current registration examinations (such as the Series 6 or the Series 7) and would test knowledge specific to each category/job function.

FINRA proposes to develop eight (8) specialized examinations, including general securities representative, investment and variable contract representative and equity trader examinations. FINRA further proposes to retire various specialized examinations, including the options representative, government securities, and order processing assistant examinations.

Individuals registered as representatives, or representatives who have been registered within the past two years, prior to the effective date of the proposal would be eligible to maintain those registrations without being subject to any additional requirements. Those individuals will be considered to have passed the SIE.

FINRA is proposing to roll out the revised structure in two phases. Phase one includes the general knowledge examination and the specialized knowledge examinations for the Investment Company and Variable Contracts Products Representative, the General Securities Representative and the Investment Banking Representative registration categories. Phase two includes all remaining specific knowledge examinations.

FINRA is evaluating the structure of the principal-level examinations and may propose to streamline this examination structure at a later time. The current proposal would not impact the principal-level registration categories.

The proposed examination structure does not affect the current continuing education requirements. Individuals who have passed the general knowledge examination but not a specialized knowledge examination and do not hold a registered position would not be subject to the continuing education requirements.

II. EXECUTIVE SUMMARY

In this section, SIFMA summarizes some of its general comments on RN 15-20. A detailed discussion of each of these issues is included in the various sections of this comment letter.

- **Review of Existing Representative-Level Examination Structure:** SIFMA supports FINRA's review of the existing representative-level examination program. SIFMA believes the proposed changes included in RN 15-20 will make FINRA's examination program less burdensome, less costly and more efficient. These changes ultimately should benefit

investors and the industry by, among other things, eliminating unnecessary and duplicative examinations.³

- **Review of Existing Principal-Level Examination Structure:** SIFMA encourages FINRA to review and amend the principal-level examination program. SIFMA believes changes to this program are warranted and would prove beneficial to investors, FINRA and the industry.⁴
- **Retiring Certain Examinations:** FINRA proposes to retire various specialized examinations. SIFMA supports FINRA's proposal to retire examinations that are duplicative and not extensively used within the industry.⁵
- **Align the Period that the SIE and Specialized Examinations are Valid:** SIFMA believes that material cost savings and efficiencies can be gained by aligning the periods that the SIE and specialized examinations are valid. SIFMA believes aligning these periods will not impact investor protection concerns.⁶
- **Solicitation of Member Firm Comments on Specialized Examinations:** SIFMA requests that FINRA solicit member firm comments on the topics of the specialized examinations through a Regulatory Notice to members.⁷
- **Length of the SIE and Specialized Examinations:** SIFMA requests that FINRA include an overall time limit on the SIE plus specialized examinations.⁸

³ See generally Section III.A of this comment letter.

⁴ See generally *id.*

⁵ See generally Sections III.B & III.J of this comment letter.

⁶ See generally Section III.D of this comment letter.

⁷ See generally Section III.G of this comment letter.

⁸ See generally Section III.H of this comment letter.

- **Certain Operational Considerations:** SIFMA understands that RN 15-20 is a concept proposal and, therefore, represents an early stage in FINRA's review of its representative-level examination program. SIFMA encourages FINRA to continue to maintain an open dialogue with the industry as this process evolves. A dynamic dialogue with the industry is particularly important to identify and resolve operational issues at the earliest possible opportunity.⁹

III. SIFMA'S COMMENTS ON RN 15-20 – CONCEPT PROPOSAL TO RESTRUCTURE THE REPRESENTATIVE-LEVEL QUALIFICATION EXAMINATION PROGRAM

A. SIFMA Supports FINRA's Concept Proposal

SIFMA strongly supports FINRA's review of the existing representative-level examination program. SIFMA believes that over the years the existing examination program has evolved to include duplicative examinations and generally has become less efficient. SIFMA believes the proposed changes included in RN 15-20 will make FINRA's examination program less onerous, less costly and more efficient. It also recognizes that, as individuals at large firms increasingly trade multiple products, having a licensing regime that requires individuals to take separate single-purpose examinations is inefficient at best and confusing at worst. These changes ultimately should benefit investors and the industry by, among other things, eliminating unnecessary and duplicative examinations.

SIFMA supports the process that FINRA has used to review and propose changes to the current representative-level examination program. SIFMA encourages FINRA to continue to review its various systems, programs, rules and interpretations and to solicit member firm feedback on the function, operation, and purpose of FINRA's rules and interpretations.

SIFMA encourages FINRA to review and amend the principal-level examination program. SIFMA believes changes to this program are warranted and would prove beneficial to investors, FINRA and the industry.

B. Retiring Certain Examinations

FINRA proposes to retire various specialized examinations: options representative, corporate securities representative, government securities representative, and order processing assistant examinations. FINRA also is considering retiring the

⁹ See generally Section III.I of this comment letter.

U.K. securities representative and Canadian securities representative registration categories. Section III.I of this comment letter includes SIFMA's comments on the U.K. and Canadian specialized examinations.

SIFMA supports FINRA retiring the above-listed examinations, as these examinations have not extensively been used within the industry over the last few years. Eliminating these examinations and folding their content into another examination category should result in less duplication and redundancy in the overall examination regime.

C. Period of Time that the SIE is Valid – Extend from Four Years to Five Years

FINRA proposes that the SIE will be valid for a four year period. The specialized examinations will be valid for a two year period. FINRA states that the SIE should be valid for a longer period than the specialized examinations because the knowledge covered by the SIE would be less likely to change than the content covered by the specialized knowledge examinations.

SIFMA agrees that the knowledge covered by the SIE is less likely to change over a short period of time than the information covered by the specialized examinations. SIFMA, however, requests that FINRA extend the time period over which the SIE is valid from four years to five years. A round five year period will work better with other rules¹⁰ that FINRA members are subject to and other firm operations, practices, and procedures. Extending this period of time will not implicate investor protection concerns because the information included in the SIE examination is unlikely to change much, if at all, over an additional one year period.

D. Align the Validity Periods of the SIE & Specialized Examinations

FINRA proposes that the SIE will be valid for four years. FINRA further proposes to maintain the current two year validity period for the specialized knowledge examinations.¹¹

FINRA proposes a shorter validity period for the specialized examinations because the "knowledge covered by the SIE would be less likely to change than the content covered by the specialized knowledge examinations."¹² SIFMA understands

¹⁰ See Broker-Dealer CIP Rules, 31 C.F.R. § 1023.220 (2015).

¹¹ See RN 15-20 at 6. Under the current registered representative examination regime, a registered person's license is valid for 2 years after terminating her association with a member firm.

¹² *Id.*

FINRA's staleness concerns, but SIFMA requests that FINRA provide additional background information to support its contention that specialized examination content is more likely to become stale sooner than SIE content.

SIFMA believes it is unlikely that the content of specialized examinations will generally become stale within just two years. SIFMA is concerned that even assuming some percentage of the information included in the specialized examinations will become stale sooner than the information in the SIE, there still is a lack of empirical data that indicates that a significant enough percentage of the information in the specialized examinations will become stale to warrant the cost and inefficiency of a short two year validity period. The practical effect of FINRA's proposed four-year and two-year validity periods is that a sizable percentage of the individuals holding a securities license might have to take an examination every two years.

SIFMA believes that FINRA can extend the validity period of the specialized examinations beyond two years without implicating investor protection concerns. Concerns about registered individuals having stale knowledge would be better addressed through FINRA's continuing education requirements.¹³

SIFMA believes that the SIE and specialized examinations should be valid for five years. Aligning the validity periods of the SIE and specialized examinations would result in material cost savings and efficiencies. Indeed, the numerous charts in RN 15-20 providing examples of all the various examination termination scenarios indicates how complex and inefficient the registration system can become if the validity periods of the SIE and specialized examinations are not aligned.

E. Coordination with the Municipal Securities Rulemaking Board ("MSRB")

The MSRB maintains an examination program for municipal securities professionals.¹⁴ SIFMA believes it is important that FINRA and the MSRB to coordinate their respective efforts in structuring and operating their respective examination programs. Requiring firms to comply with different examination standards is costly and inefficient. SIFMA, therefore, requests that FINRA and the MSRB align their examination program structures. SIFMA believes that the examination program

¹³ For example, assuming FINRA adopts a 5 year validity period for both the SIE and specialized knowledge examinations, a person not associated with a FINRA member firm during the 5 year validity period could avoid the staleness issue by satisfying a FINRA periodic continuing education requirement.

¹⁴ See generally MSRB Rule G-2 and <http://www.msrb.org/Rules-and-Interpretations/Professional-Qualification.aspx> [last visited on July 14, 2015].

approach outlined in FINRA's concept proposal is an appropriate approach that should also be followed by the MSRB.

F. SIE Examination -- Content

In RN 15-20, FINRA provides a draft SIE examination content outline.¹⁵ The draft content outline includes references to a large number of detailed and complex SEC and FINRA rules.¹⁶ For example,

- SEC Rule 15c3-1 (net capital);¹⁷
- Federal Reserve Board Regulation T (margin);¹⁸
- Section 11(d) of the Securities Exchange Act of 1934 (Trading by Exchange Members, Brokers and Dealers: "Prohibition on Extension of Credit by Broker-Dealer");¹⁹
- SEC Regulation NMS (national market structure rules);²⁰
- FINRA Rule 2360 (options);²¹
- Section 10 of the Securities Act of 1933 (information required in a prospectus);²² and
- The Securities Investor Protection Act of 1970.²³

¹⁵ See RN 15-20, App. A at 19-26.

¹⁶ See generally *id.*

¹⁷ See *id.* at 19.

¹⁸ See *id.* at 25.

¹⁹ See *id.* at 25.

²⁰ See *id.* at 22.

²¹ See *id.* at 22.

²² See *id.* at 20.

²³ See *id.* at 26.

SIFMA understands that FINRA intends for the SIE to function as a general knowledge examination that will overlay more detailed specialized examinations. SIFMA believes that the large number of detailed rules that are included in the draft SIE examination content outline are more appropriate for the specialized examinations. SIFMA appreciates that a general knowledge examination might test a general awareness of some of the issues covered by the detailed rules listed in the proposal, but SIFMA does not believe that a person taking the SIE should have to know the detailed provisions of each of the rules and statutory sections listed in the draft SIE content outline.

SIFMA believes that the SIE could test, for example, a person's awareness that there are rules governing broker-dealer finances and how a broker-dealer handles customer funds and securities and the general contours of those rules. SIFMA does not believe, however, that the SIE, as a general knowledge exam, should require a person to read and know the detailed provisions of the SEC's net capital rule (Rule 15c3-1).

G. Specialized Examinations – Content

SIFMA encourages FINRA to solicit comment on the content of the new specialized examinations through a Regulatory Notice to Members.

H. There Should be a Time Limit for the SIE and Specialized Examinations

SIFMA requests that FINRA include an overall time limit on the SIE plus specialized examinations. Employees taking the examinations already have full-time jobs and in many cases will need to take more than one examination. Limiting the overall time of the combined SIE and specialized examinations will be more efficient and cost effective.

I. Certain Operational Considerations

FINRA states in RN 15-20 that "[i]ndividuals would be able to schedule both the SIE and specialized examinations for the same day. . . ." ²⁴ It is unclear from the concept proposal whether an individual who fails the SIE would be permitted to continue on and take a specialized examination. RN 15-20 also is unclear if in this situation a firm would be charged the specialized exam fee and whether the individual would be charged with a failing attempt at the specialized exam as well as the SIE.

²⁴ See RN 15-20 at 14.

SIFMA anticipates that additional technical and operational questions will arise as the new exam program is implemented. SIFMA encourages FINRA to maintain an open dialogue with the industry during this transition period, including issuing guidance through, for example, frequently-asked-questions.

J. Canadian & U.K. Specialized Examinations

FINRA states in RN 15-20 that it might retire the U.K. Securities Representative registration (Series 17) and the Canadian Securities Representative registrations (Series 37 & Series 38). FINRA further states that it is reviewing the relevant U.K. and Canadian registration requirements to determine whether there is sufficient overlap between the SIE and these registration requirements so as to permit them to act as exemptions to the SIE.

SIFMA supports FINRA's review of these specialized examinations. SIFMA would like to offer FINRA any assistance it may need in conducting its review of the U.K. Securities Representative registration (Series 17) and the Canadian Securities Representative registrations (Series 37 & Series 38).

IV. SPECIFIC QUESTIONS RAISED IN RN 15-20

In this section, SIFMA provides responses to the individual questions that FINRA raised in Regulatory Notice 15-20. The below responses should be read in conjunction with the overall comments provided in the other sections of this comment letter.

- 1. FINRA is proposing to move to a general knowledge examination and specialized knowledge examinations for the representative-level qualification examinations. Does moving to this type of structure make sense? Would it help member firms better manage and develop individuals?*

SIFMA supports the proposals included in RN 15-20. SIFMA believes the proposals will make the overall examination program more efficient and lessen the overlap between examinations. SIFMA also believes permitting individuals to take the SIE without also having to take a specialized examination will facilitate and encourage greater knowledge and skill across all employee levels within the securities industry. See Section III.A of this comment letter.

2. *FINRA is proposing to create the SIE covering fundamental securities industry knowledge. Do you consider the content listed in the sample content outline to be common knowledge? Is there other knowledge not listed that you believe should be included on the SIE? What is an appropriate level of depth?*

Subject to the comments included in Section III.F of this comment letter, SIFMA believes the proposed content of the SIE generally covers fundamental securities industry knowledge. See Sections III.F & G of this comment letter.

3. *FINRA is proposing to allow any individual, including an individual who is not associated with a member firm, to take the SIE. Further, a passing result on the SIE would be valid for four years. Does this approach make sense? Is four years a reasonable length of time for a passing result on the SIE examination to be valid?*

See Sections III.A, C & D of this comment letter.

4. *FINRA is proposing retiring the Options Representative, the Corporate Securities Representative and the Government Securities Representative registration categories and the associated Series 42, Series 62 and Series 72 examinations. Do you believe that FINRA should retain any of these examinations? If so, why? Should FINRA consider retiring any other representative-level registration categories that it is considering retaining under the proposal?*

See Section III.B of this comment letter.

5. *FINRA is considering retiring the U.K. Securities Representative and the Canadian Securities Representative registration categories and the associated Series 17, Series 37 and Series 38 examinations and instead determine foreign qualifications that would exempt an individual from taking the SIE. Do you believe that this approach makes sense or should FINRA create specialized knowledge examinations for the Series 17, Series 37 and Series 38 similar to the other specialized knowledge examinations described in the proposal?*

See Section III.J of this comment letter.

6. *FINRA is considering retiring the Order Processing Assistant Representative registration category and the associated Series 11 examination. Do you believe that there is utility in continuing to maintain this registration category and examination?*

See Section III.B of this comment letter.

7. *Are there any other potential economic impacts of the proposal that need to be identified?*

See Section III.A of this comment letter.

8. *Are there more effective ways to achieve the proposal's goals?*

See Section III of this comment letter.

9. *How much of the fees for representative-level examinations are currently paid by member firms versus individuals? Would the proposal change the payment responsibilities? If so, how?*

SIFMA understands, based on an informal survey of SIFMA member firms, that member firms take different approaches on registration fee allocation.

- **Some firms pay for all of their employees' examination fees.**
- **Other firms base examination fee expense allocation on an individual's association status with the firm: employee or independent contractor. Under this approach, independent contractors generally are responsible for their own examination fees. The firm, however, generally covers the examination fees incurred by employees of the firm.**

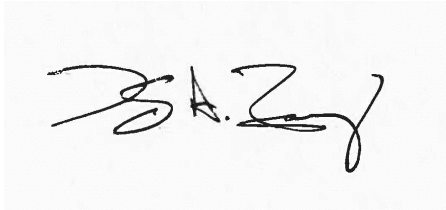
At the concept proposal stage, many firms do not anticipate that the Proposal will impact how firms allocate examination fee expenses.

V. CONCLUSION

SIFMA thanks FINRA for the opportunity to comment on FINRA's concept proposal to restructure the representative-level qualification examination program. Subject to the comments included in this letter, SIFMA supports the proposed changes to the representative-level examination program. SIFMA commends FINRA for undertaking a review of the program and encourages FINRA to consider similar updates to its principal-level examination program.

If you have any questions or require further information, please contact Kevin Zambrowicz, Associate General Counsel & Managing Director, SIFMA at (202) 962-7386 (kzambrowicz@sifma.org), or Stephen Vogt, Assistant Vice President & Assistant General Counsel, SIFMA at (202) 962-7393 (svogt@sifma.org).

Very truly yours,



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