



South Region Compliance Seminar

New Orleans, LA | December 2 – 3, 2015

FINRA Qualification Exam Program Restructure and Web Delivery of CE **Wednesday, December 2** **12:45 p.m. – 1:45 p.m.**

This session presents information around the proposal to restructure FINRA's representative qualification examinations and the transition to Web delivery of the Regulatory Element Continuing Education (CE) program. Participants learn about the October 2015 implementation and the timeline for the remainder of the transition, and understand the important points of FINRA's proposed restructuring of the representative level qualification examination program.

Moderator: Scott Maestri
Associate District Director
FINRA Dallas District Office

Panelists: John Kalohn
Vice President
FINRA Registration and Disclosure/Testing and Continuing Education

Joseph McDonald
Senior Director
FINRA Testing and Continuing Education

Krishna Podury
Director
FINRA Registration and Disclosure/Testing and Continuing Education

FINRA Qualification Exam Program Restructure and Web Delivery of CE Panelist Bios:

Moderator:

Scott H. Maestri is the Associate District Director in FINRA's Dallas Office. He began his career with NASD in 1999 as an examiner in the New Orleans District Office. Mr. Maestri was promoted to management in September of 2003 and became responsible for a team of examiners who monitored member firms through cycle and cause investigations, as well as the Membership Application Process and Financial Surveillance. Mr. Maestri was promoted to the Associate District Director position in May of 2010, where his primary responsibility is the review and approval of the district office's major program areas. During the course of his career, Mr. Maestri has been selected for Advanced Management training and successfully obtained the Certified Regulatory and Compliance Professional designation (CRCP) both issued through The Wharton School at the University of Pennsylvania. In addition, he received a bachelor's of business administration in finance from The Else School of Management at Millsaps College.

Panelists:

John Kalohn is Vice President, FINRA, Registration and Disclosure/Testing and Continuing Education. He leads FINRA's efforts in the development, maintenance and delivery of the securities industry qualification examinations and continuing education programs. He has over 20 years of experience in educational measurement and assessments, and extensive experience developing, implementing and managing assessment programs for professional licensure and university admissions. Mr. Kalohn's prior experiences include service with one of the nation's largest providers of educational and workplace measurement and research services. He holds a bachelor's degree from State University of New York, a master's degree from Wake Forest University and a doctorate from the University of Wisconsin, Madison.

Joe McDonald is Senior Director in FINRA's Testing and Continuing Education Department, where he manages the FINRA qualification examination and examination waivers programs. Previously, he was a director in FINRA's Market Regulation Department. Mr. McDonald has been with FINRA for 17 years. Before joining FINRA, he worked as counsel in the Office of Compliance and Inspections and the Division of Market Regulation at the Securities and Exchange Commission, and as a clerk for an administrative law judge at the Commodity Futures Trading Commission. Mr. McDonald received a bachelor's degree in psychology from the State University of New York at Stony Brook and a law degree from the American University's Washington College of Law.

Krishna Podury is Director, FINRA, Registration and Disclosure/Testing and Continuing Education. He manages the day-to-day operational aspects of the testing and continuing education programs. He has over 10 years of experience with FINRA as a subject matter expert for the FINRA systems that manage the development of content and administer qualification examination and CE sessions. Mr. Podury's prior experience includes architecting and designing enterprise class software systems. He holds a bachelor's and master's degree from Osmania University of Hyderabad, India and a master's degree from the University of Mississippi.

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Panelists

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Future Directions for Qualification Examinations and Continuing Education

Evolution of CE and Qualification Exams

■ Regulatory Element Continuing Education Program

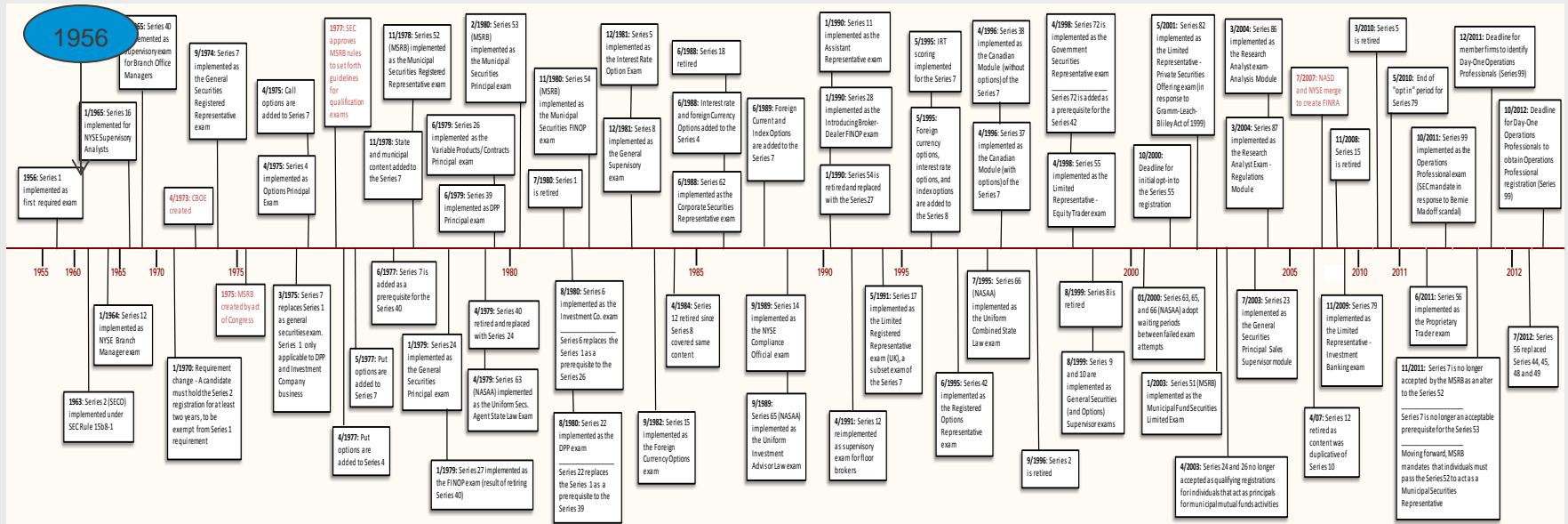
- Started in 1995 – S101 only
- Introduction of the S106 and S201 Programs
- Redesign of the Regulatory Element Program 2007 – 2010
- Launch of S901 for Operations Professionals
- Introduction of Web Delivery – 2015

■ Qualification Exams

- Long history – starting in 1956 with the Series 1
- Exams have been added as the industry has grown and new products have been created.

Qualification Examination History

Examination Implementation Timeline



Future

■ Restructuring of Qualification Exams

■ Continuing Education

- Introduction of CE Online – October 2015 and January 2016
- Projected Evolution of CE
 - Availability via tablet, smartphone
 - Develop content on a more timely basis

CE Online



CE Online – Preparations for Online Delivery

- **Conducted industry outreach to seek feedback**
 - Industry Focus Groups
 - Firm Survey
- **Pilot test conducted Summer of 2014**
 - 2,073 participants responded overwhelmingly positive to Web delivery of CE
- **Post-pilot analysis**
 - Follow up survey to firms
 - Outreach to firms that indicated opposition to online delivery
 - Reviewed results with CE Council and CE content committees

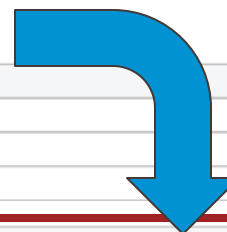
CE Online – Launch

- Implemented updates based on lessons learned from outreach and pilot
- Participant accesses CE program via a link either on FINRA.org or cecouncil.com
- FINRA CE Online System checks to verify participant is using a supported browser
- Supported Browsers:
 - Internet Explorer: Versions 9 and higher
 - Firefox: Versions 20 and higher
 - Chrome: Versions 27 and higher
 - Safari: Versions 5 and higher (MAC only- no tablet support at this time)
- Updated Captcha Software

CE Online – Firm Notifications

- Automatic CRD messaging to firms regarding the 120-day window status continues
 - CE Contacts continue to receive standard CRD CE alerts at 90/30/10 day intervals and notice if an individual goes CE Inactive
- CRD will allow firms to track participants' sessions

Individual CE Information	
<u>Current CE Status</u>	REQUIRED
CE Base Date	09/08/1998
Session Type	201



CE Appointments								
Session ID	Enrollment ID	Appointment Status	Appointment Date	Vendor	Confirmation Number	Vendor Center ID	Location	Window Dates
201	33672352	In Progress 1 of 4 Modules Completed		Web Delivery Last accessed on : 10/13/2015				09/08/2015 - 01/05/2016

Current CE Requirements									
Requirement Type	Enrollment ID	Session	Status	Status Date	Window Dates	Result	Foreign Deferred	Military Deferred	
Anniversary	33672352	201	REQUIRED	09/08/2015	09/08/2015 - 01/05/2016		N	N	

Next Requirement			
Window Dates	Enrollment ID	Requirement Type	Session Type
09/08/2018 - 01/05/2019	35199640	Anniversary	201

CE Online – Advantages

- **Increased productivity - elimination of travel to test centers**
- **No onerous test center security measures**
- **Ability to access CE Online anytime/anywhere**
 - No session time restriction of 3.5 hours
 - Participant can satisfy requirement anytime within 120 day window
- **Bookmarking allows participants to complete at their own pace and return to last location in session**
- **No requirements for firms to proctor sessions**
 - Flexibility as to amount of involvement/oversight
 - WSPs may define where/when/how participants take CE Online sessions

CE Online – Sessions

- **Participant clicks on link located on FINRA.org or CECouncil.com to begin session**
 - Logs in using first name / last name / CRD #
 - Responds to Captcha
- **Acknowledges Data Privacy Policy**
- **Agrees to Code of Conduct**
- **System randomly requests participant to enter either first 5 or last 4 numbers of SSN and date of birth**
 - This information is matched against CRD and discarded
 - SSN and DOB are NOT stored in the FINRA CE Online System
 - 30-minute lockout period if participant enters information incorrectly 3x
- **Participants must enter their firm email address to receive a copy of their CE completion certificate**

CE Online – Open Sessions

- **Returning to session**
 - Participant logs back in using a shortened login process, if within 3 hour window and from the same computer
 - Session timeout after 30 minutes of inactivity
- **Participants will repeat modules until they show proficiency**
 - Only repeat module(s) when they don't show proficiency
- **Open session expires when CE enrollment window closes**
- **CE Online session fee of \$55 is charged at time of completion**
- **CE Inactive Status**
 - Any open session closes at end of 120 days
 - Entire session will need to be taken again

CE Online – Transitioning from Test Centers

■ Phase 1 (October 1, 2015)

- Participants access CE Online for S201/S106/S901 Programs
- S101 continues to be administered at test centers

■ Phase 2 (January 4, 2016)

- Participants can access CE Online for S101
 - Personalized S101 content rolls out
 - S501 retires as a program and is merged into S101 Trading Module
 - Complete In-Firm Delivery transitions

■ Phase 3 (June 2016)

- 100% of CE sessions completed via CE Online

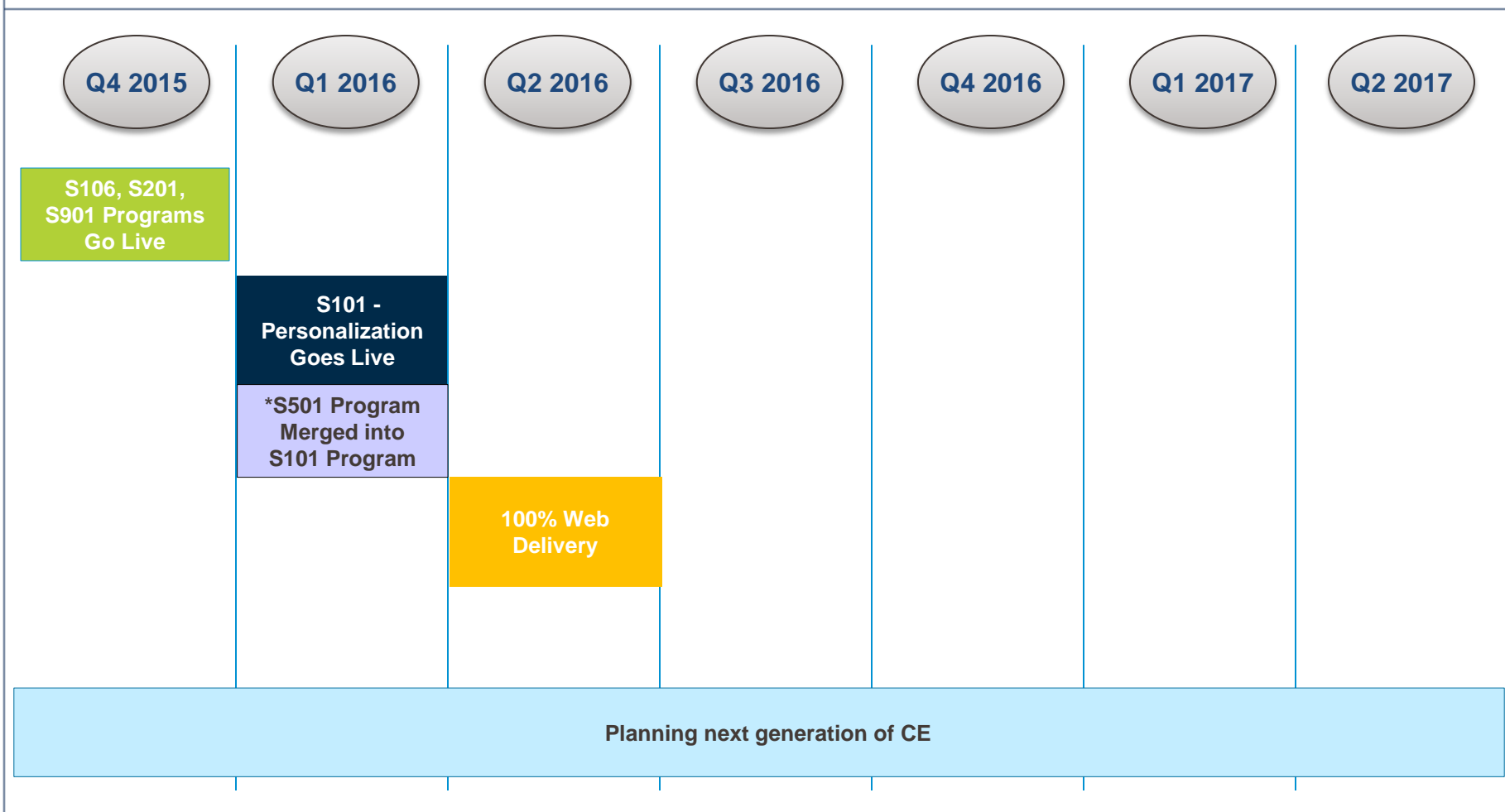
CE Online – Rule Changes

■ Rule Filing Approved by SEC

• Changes to Rule 1250

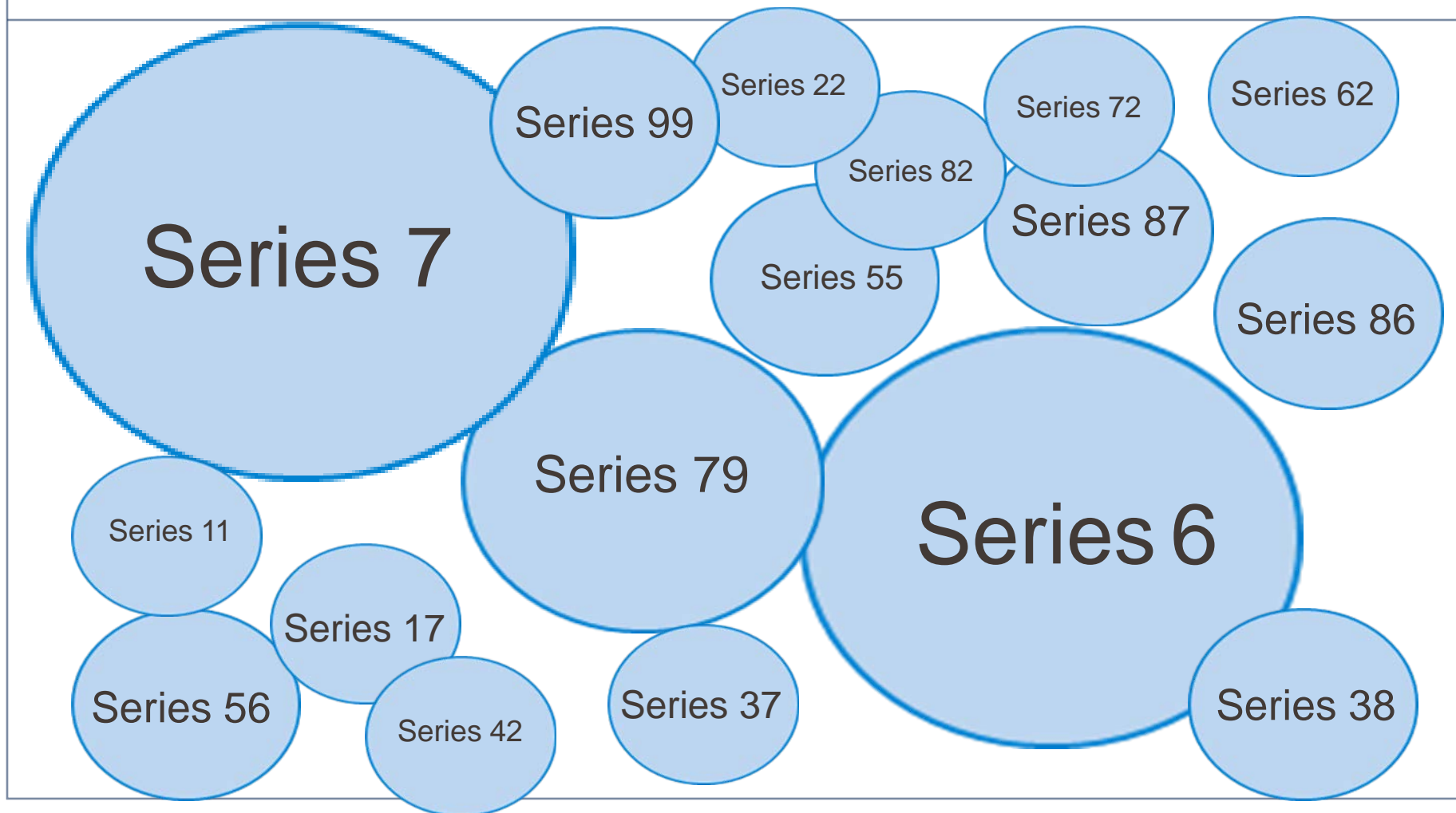
- Removed language related to In-Firm Delivery sites
- Eliminated Proctor registration
- Fee for CE Online reduced to \$55
- Regulatory Notice

CE Online – Roadmap



Exam Restructuring

Today's Representative-Level Exams

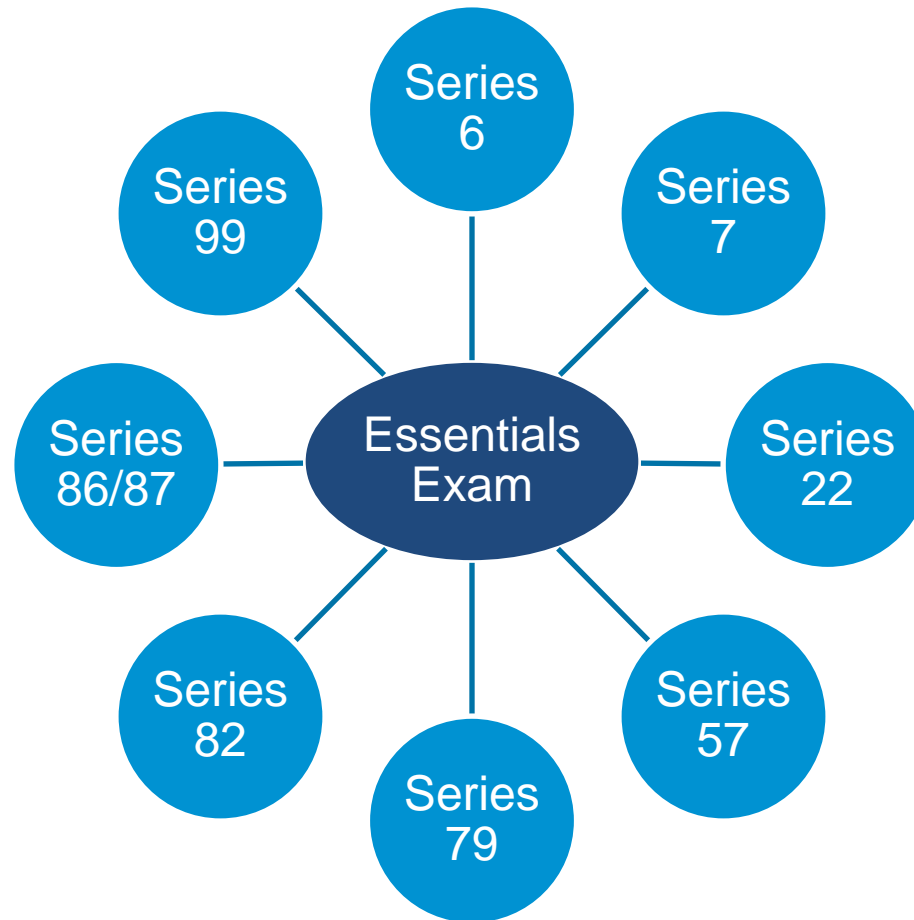


Qualification Exam Restructuring

- Respond to industry and regulatory changes
- Reduce the redundancy of content across exams
- Streamline the exam process
- Minimize impact and change to the registration rules
- Ensure registered reps have a solid breadth of understanding of the industry



Revised Exam Structure



Securities Industry Essentials Exam Content

- **Securities Industry Essentials Exam content would include knowledge all securities industry registrants should understand, including but not limited to:**
 - Structure and functioning of the securities industry
 - Regulatory agencies and their functions
 - Basic economics
 - Product knowledge (stocks, bonds, mutual funds)
 - Regulated and prohibited practices
 - Professional conduct
- **Content would be largely stable and subject to little change over time (i.e., the characteristics of products are constant)**

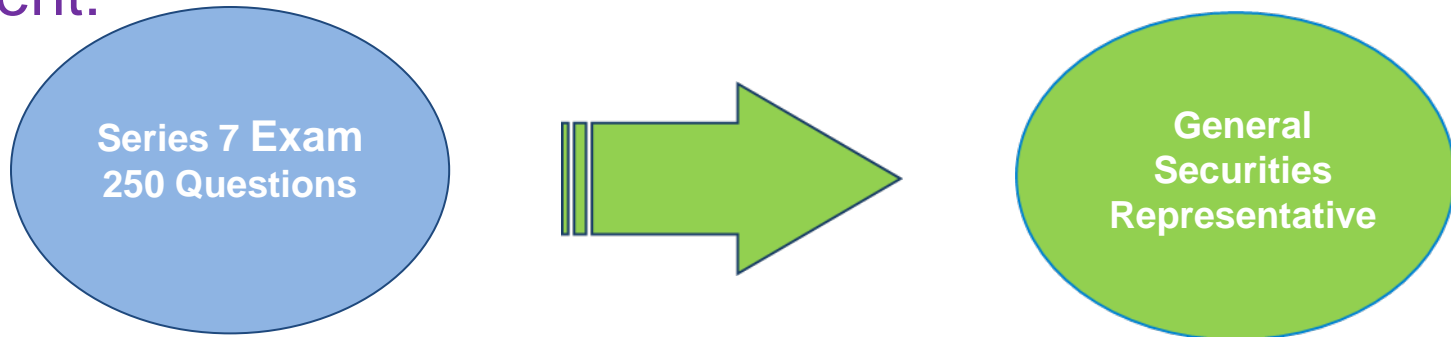
Essentials Exam Eligibility

- **FINRA would introduce two new features for the Essentials Exam:**
 - A person would not need to be associated with a member firm to take the Essentials Exam
 - A passing score on the Essentials Exam would be valid for four years from the date the person passes the exam
- **Passing the Essentials Exam alone would not qualify a person to hold a registered position**

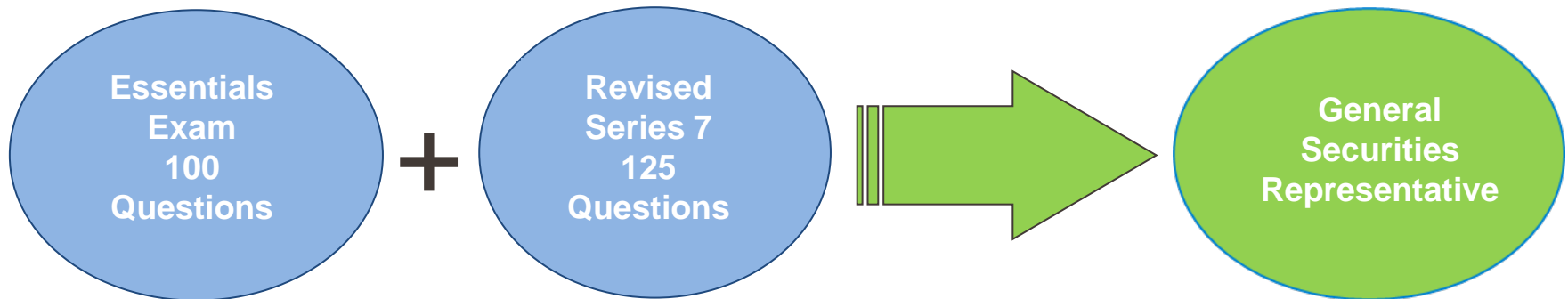


Example: Current vs. Future (Conceptual Illustration) Path to Registered Representative Registration

Current:



Future/Proposed:



Other Features of the Proposal

- **Series 11 Exam (Order Processing Assistant) – FINRA considering the impact of retiring exam and registration category**
- **Series 17/37/38 Exams – FINRA analyzing whether UK and Canadian certifications have a high enough overlap of content with the Essentials Exam to exempt certificate holders**
- **FINRA would retire the Series 42 (Options Representative), Series 62 (Corporate Securities Representative), and Series 72 (Government Securities Representative) exams**

Effect on Current Registrants

- **Current representative-level registrants would maintain registration without additional testing**
- **Most current registrants would be considered to have passed the Essentials Exam and it would be valid for 4 years upon leaving the industry**
 - **If the registrant returns within 2 years, she would regain registration without the need to take the Essentials or top-off exam**
 - **If the registrant returns between 2 and 4 years later, she would not need to take the Essentials Exam, only the top-off exam for the registration position**
 - **If the registrant returns more than 4 years later, she would need to take both the Essentials and the top-off exam**

Industry Opportunities

- **New exam structure will give firms an opportunity to employ new business models for onboarding staff**
- **Targeted training for Essentials and top off exams will allow reps to gain a more thorough understanding of products and associated rules**
- **Allowing non-registered staff (e.g., administrative, back office) to take Essentials Exam will help them gain a better understanding of the securities industry**
- **With current rep population aging, new exam structure will create a larger pool of potential new reps**

Regulatory Notice 15-20 Concept Release

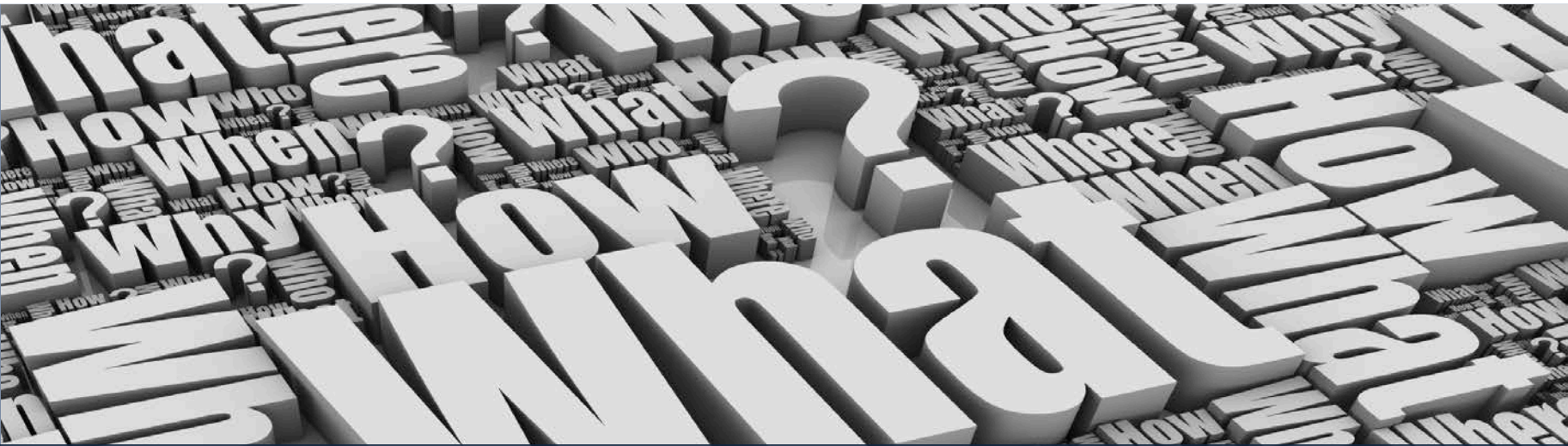
- **Published May 27, 2015, with a 60 day comment period**
- **FINRA received 20 comment letters – almost all commenters support the proposal**
- **Commenters believe proposal will make exam program less burdensome, less costly and more efficient**
- **Commenters support 4 year validity period for Essentials exam – some suggest a 5 or 6 year period of validity**
- **Commenters support retiring exams which have lost utility**

Regulatory Notice 15-20 - Comments

- Many commenters believe allowing non-firm associated persons to take the Essentials will encourage younger people to come into the securities industry
- A few commenters expressed concern that persons who pass only the Essentials may hold themselves out to public as qualified to do business
- Content on Essentials exam should be tailored to test concepts at an appropriate level

Next Steps

- **Present proposal to FINRA Board for approval to file with SEC**
- **Make registration rule, fee and qualification exam filings with the SEC in early to mid 2016**
- **Implement Essentials and top off exams in the first half of 2017**
- **FINRA is looking at principal level qualification examination program to identify an opportunity for restructuring**



Questions

