

Required fields are shown with yellow backgrounds and asterisks.

Filing by Chicago Board Options Exchange  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input checked="" type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*       Last Name \*   
 Title \*   
 E-mail \*   
 Telephone \*       Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date       Counsel

By      

(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

Add Remove View

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**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## 1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”),<sup>1</sup> The Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) revisions to the content outline and selection specifications for the Registered Options Principal (“Series 4”) examination program.<sup>2</sup> The proposed revisions update the material 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 Registered Options Principal. In addition, CBOE is proposing to make changes to the format of the content outline. CBOE is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of CBOE. CBOE is proposing these revisions to adopt the revised Series 4 examination program of the Financial Industry Regulatory Authority, Inc. (“FINRA”). FINRA currently administers Series 4 examinations on behalf of CBOE.

The revised content outline is attached. The Series 4 selection specifications were submitted to the Commission under separate cover by FINRA. FINRA submitted the Series 4 selection specifications in connection with a FINRA filing to revise its Series 4 Examination Program.<sup>3</sup> CBOE is in agreement with the selection specifications submitted by FINRA.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> CBOE also is proposing corresponding revisions to the Series 4 question bank. CBOE is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder.

<sup>3</sup> See Securities Exchange Act Release No. 75246 (June 18, 2015), 80 F.R. 36388 (June 24, 2015) (SR-FINRA-2015-018).

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

(a) CBOE's Chief Regulatory Officer pursuant to delegated authority approved the proposed rule change on September 16, 2015.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7462, or Nicholas M. Still, (312) 786-7006, Chicago Board Options Exchange, Incorporated, 400 South LaSalle, Chicago, Illinois 60605.

As further discussed below, CBOE is filing the proposed rule change for immediate effectiveness. CBOE will announce the proposed rule change in a Regulatory Circular.

**3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

Section 6(c)(3) of the Act<sup>4</sup> authorizes CBOE to prescribe standards of training, experience, and competence for persons associated with CBOE Trading Permit Holders ("TPH"). In accordance with that provision, CBOE has developed examinations that are designed to establish that persons associated with CBOE TPHs have attained specified levels of competence and knowledge, consistent with applicable registration requirements under CBOE rules. CBOE periodically reviews the content of the examinations to

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<sup>4</sup> 15 U.S.C. 78f(c)(3).

determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

CBOE Rule 9.2 states that no TPH organization shall be approved to transact options business with the public until those persons associated with it who are designated as Options Principals have been approved by and registered with the Exchange. Rule 9.2 states that persons engaged in the supervision of options sales practices or a person to whom the designated general partner or executive officer or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals. CBOE Rule 9.2 further requires successful completion of an examination prescribed by the Exchange in order to qualify for registration as an Options Principal. The Series 4 examination, an industry-wide examination, has been designed for this purpose, and tests a candidate's knowledge of options trading generally, the industry rules applicable to trading of option contracts, and the rules of registered clearing agencies for options. The Series 4 examination covers, among other things, equity options, foreign currency options, and index options.

In consultation with a committee of industry representatives, including representatives from CBOE, FINRA recently undertook a review of the Series 4 examination program. As a result of this review, FINRA filed revisions to 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 Registered Options Principal. FINRA also made changes to the format of the content outline.<sup>5</sup> CBOE is filing these changes to adopt FINRA's revised Series 4 examination program.

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<sup>5</sup> See Securities Exchange Act Release No. 75246 (June 18, 2015), 80 F.R. 36388 (June 24, 2015) (SR-FINRA-2015-018).

### **Current Content Outline**

The current content outline is divided into three sections. The following are the three sections and the number of questions associated with each of the sections, denoted Section 1 through Section 3:

1. Options Investment Strategies, 34 questions;
2. Supervision of Sales Activities and Trading Practices, 75 questions; and
3. Supervision of Employees, Business Conduct, and Recordkeeping and Reporting Requirements, 16 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current content outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference materials.

### **Proposed Revisions**

CBOE is proposing to divide the content outline into six major job functions that are performed by a Registered Options Principal. The following are the six major job functions, denoted Function 1 through Function 6, with the associated number of questions:

- Function 1: Supervise the Opening of New Options Accounts, 21 questions;
- Function 2: Supervise Options Account Activities, 25 questions;
- Function 3: Supervise General Options Trading, 30 questions;
- Function 4: Supervise Options Communications, 9 questions;
- Function 5: Implement Practices and Adhere to Regulatory Requirements, 12 questions; and

Function 6: Supervise Associated Persons and Personnel Management Activities, 28 questions.

CBOE is proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a Registered Options Principal. The questions on the revised Series 4 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

Each function also includes specific tasks describing activities associated with performing that function. There are four tasks (1.1 – 1.4) associated with Function 1; four tasks (2.1 – 2.4) associated with Function 2; four tasks (3.1 – 3.4) associated with Function 3; four tasks (4.1 – 4.4) associated with Function 4; two tasks (5.1 – 5.2) associated with Function 5; and four tasks (6.1 – 6.4) associated with Function 6.<sup>6</sup> By way of example, one such task (Task 4.2) is review options retail communications and determine appropriate approval.<sup>7</sup> Further, the content outline lists the knowledge required to perform each function and associated tasks (e.g., types of retail communications, required approvals).<sup>8</sup> In addition, where applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (e.g., FINRA Rule 2220), NASD Rules (e.g., NASD Rule 2711(i)), CBOE Rules (e.g., CBOE Rule

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<sup>6</sup> See Exhibit 3, Outline Pages 6 - 22.

<sup>7</sup> See Exhibit 3, Outline Page 15.

<sup>8</sup> See Exhibit 3, Outline Page 15.

9.21) and SEC rules (e.g., SEA Rule 135a).<sup>9</sup> FINRA conducted a job analysis study of Registered Options Principals, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised content outline. The functions and associated tasks, which appear in the revised content outline for the first time, reflect the day-to-day activities of a Registered Options Principal.

As noted above, CBOE also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, CBOE is proposing to revise the content outline to reflect the adoption of rules in the CBOE rulebook (for example CBOE Rule 3.6 (Persons Associated with TPH Organizations); CBOE Rule 4.24 (Supervision); CBOE Rule 6.25 (Nullification and Adjustment of Options Transactions including Obvious Errors) and CBOE Rule 12.4 (Portfolio Margin)

CBOE is proposing similar changes to the Series 4 selection specifications and question bank.

Finally, CBOE is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes, CBOE is proposing to: (1) add a table of contents;<sup>10</sup> (2) provide more details regarding the purpose of the examination;<sup>11</sup> (3) provide more details on the application

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<sup>9</sup> See Exhibit 3, Outline Page 15.

<sup>10</sup> See Exhibit 3, Outline Page 2.

<sup>11</sup> See Exhibit 3, Outline Page 3.

procedures;<sup>12</sup> (4) provide more details on the development and maintenance of the content outline and examination;<sup>13</sup> (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure, and that a statistical adjustment process known as equating is used in scoring exams;<sup>14</sup> and (6) note that each candidate will receive a score report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.<sup>15</sup>

The number of questions on the Series 4 examination will remain at 125 multiple-choice questions,<sup>16</sup> and candidates will have 195 minutes to complete the examination. The test time will change from 180 minutes to 195 minutes because pretest items increased from 5 items to 10 items. Currently, a score of 70 percent is required to pass the examination. The passing score will change to 72 percent with the revised Series 4 examination program.

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<sup>12</sup> See Exhibit 3, Outline Page 3.

<sup>13</sup> See Exhibit 3, Outline Page 4.

<sup>14</sup> See Exhibit 3, Outline Page 5.

<sup>15</sup> See Exhibit 3, Outline Page 5.

<sup>16</sup> Consistent with FINRA's practice of including "pretest" items on certain qualification examinations, which is designed to ensure that new examination items meet acceptable testing standards prior to use for scoring purposes, the examination includes 10 additional, unidentified pretest items that do not contribute towards the candidate's score. Therefore, the examination actually consists of 135 items, 125 of which are scored. The 10 pretest items are randomly distributed throughout the examination.

### **Availability of Content Outline**

The revised Series 4 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams).

CBOE is filing the proposed rule change for immediate effectiveness. CBOE will announce the proposed rule change in a Regulatory Circular.

#### **(b) Statutory Basis**

CBOE believes that the proposed revisions to the Series 4 examination program are consistent with the provisions of Section 6(b)(5) of the Act,<sup>17</sup> which requires, among other things, that CBOE rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 6(c)(3) of the Act,<sup>18</sup> which authorizes CBOE to prescribe standards of training, experience, and competence for persons associated with CBOE TPHs. CBOE believes that the proposed revisions will further these purposes by updating the examination program 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 Registered Options Principal.

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<sup>17</sup> 15 U.S.C. 78f(b)(5).

<sup>18</sup> 15 U.S.C. 78f(c)(3).

**4. Self-Regulatory Organization’s Statement on Burden on Competition**

CBOE does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by a Registered Options Principal and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would make the examination more efficient and effective.

**5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments were neither solicited nor received.

**6. Extension of Time Period for Commission Action**

Not applicable.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(i) of the Act<sup>19</sup> and Rule 19b-4(f)(1) thereunder,<sup>20</sup> in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of CBOE.

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<sup>19</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>20</sup> 17 CFR 240.19b-4(f)(1).

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The changes to the examination program are the changes filed by FINRA on June 12, 2015 and noticed by the SEC on June 18, 2015.<sup>21</sup> CBOE is adopting the revised Series 4 examination program of FINRA.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 3. Revised Content Outline for the Series 4 Examination.

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<sup>21</sup> See Securities Exchange Act Release No. 75246 (June 18, 2015), 80 F.R. 36388 (June 24, 2015) (SR-FINRA-2015-018).

EXHIBIT 1

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CBOE-2015-095]

[Insert date]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on [insert date], Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the CBOE. CBOE has designated the proposed rule change as “constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule” under Section 19(b)(3)(A)(i) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change**

CBOE is filing revisions to the content outline and selection specifications for the Registered Options Principal (Series 4) examination program.<sup>5</sup> The proposed revisions

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

<sup>5</sup> CBOE is also proposing corresponding revisions to the Series 4 question bank. CBOE is submitting this filing for immediate effectiveness pursuant to Section

update the material 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 Registered Options Principal. In addition, CBOE is proposing to make changes to the format of the content outline. CBOE is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of CBOE. CBOE is proposing these revisions to adopt the revised Series 4 examination program of the Financial Industry Regulatory Authority, Inc. (“FINRA”). FINRA currently administers Series 4 examinations on behalf of CBOE.

The revised content outline is attached.<sup>6</sup> The Series 4 selection specifications were submitted to the Commission under separate cover by FINRA. FINRA submitted the Series 4 selection specifications in connection with a FINRA filing to revise its Series 4 Examination Program.<sup>7</sup> CBOE is in agreement with the selection specifications submitted by FINRA.

The text of the proposed rule change is available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

## **II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places

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19(b)(3)(A) of the act and Rule 19b-4(f)(1) thereunder.

<sup>6</sup> The Commission notes that the revised content outline is attached to the filing, not to this Notice. The content outline is available as part of the filing on CBOE’s website.

<sup>7</sup> See Securities Exchange Act Release No. 75246 (June 18, 2015), 80 F.R. 36388 (June 24, 2015) (SR-FINRA-2015-018).

specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Section 6(c)(3) of the Act<sup>8</sup> authorizes CBOE to prescribe standards of training, experience, and competence for persons associated with CBOE Trading Permit Holders ("TPH"). In accordance with that provision, CBOE has developed examinations that are designed to establish that persons associated with CBOE TPHs have attained specified levels of competence and knowledge, consistent with applicable registration requirements under CBOE rules. CBOE periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

CBOE Rule 9.2 states that no TPH organization shall be approved to transact options business with the public until those persons associated with it who are designated as Options Principals have been approved by and registered with the Exchange. Rule 9.2 states that persons engaged in the supervision of options sales practices or a person to whom the designated general partner or executive officer or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals. CBOE Rule 9.2 further requires successful completion of an examination prescribed by the Exchange in order to qualify for registration as an Options Principal. The Series 4 examination, an industry-wide examination, has been designed for this purpose, and tests a candidate's knowledge of options trading generally, the

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<sup>8</sup> 15 U.S.C. 78f(c)(3).

industry rules applicable to trading of option contracts, and the rules of registered clearing agencies for options. The Series 4 examination covers, among other things, equity options, foreign currency options, and index options.

In consultation with a committee of industry representatives, including representatives from CBOE, FINRA recently undertook a review of the Series 4 examination program. As a result of this review, FINRA filed revisions to 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 Registered Options Principal. FINRA also made changes to the format of the content outline.<sup>9</sup> CBOE is filing these changes to adopt FINRA's revised Series 4 examination program.

#### **Current Content Outline**

The current content outline is divided into three sections. The following are the three sections and the number of questions associated with each of the sections, denoted Section 1 through Section 3:

1. Options Investment Strategies, 34 questions;
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### **Proposed Revisions**

CBOE is proposing to divide the content outline into six major job functions that are performed by a Registered Options Principal. The following are the six major job functions, denoted Function 1 through Function 6, with the associated number of questions:

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CBOE is proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by a Registered Options Principal. The questions on the revised Series 4 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

Each function also includes specific tasks describing activities associated with performing that function. There are four tasks (1.1 – 1.4) associated with Function 1; four tasks (2.1 – 2.4) associated with Function 2; four tasks (3.1 – 3.4) associated with Function 3; four tasks (4.1 – 4.4) associated with Function 4; two tasks (5.1 – 5.2)

associated with Function 5; and four tasks (6.1 – 6.4) associated with Function 6.<sup>10</sup> By way of example, one such task (Task 4.2) is review options retail communications and determine appropriate approval.<sup>11</sup> Further, the content outline lists the knowledge required to perform each function and associated tasks (e.g., types of retail communications, required approvals).<sup>12</sup> In addition, where applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (e.g., FINRA Rule 2220), NASD Rules (e.g., NASD Rule 2711(i)), CBOE Rules (e.g., CBOE Rule 9.21) and SEC rules (e.g., SEA Rule 135a).<sup>13</sup> FINRA conducted a job analysis study of Registered Options Principals, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised content outline. The functions and associated tasks, which appear in the revised content outline for the first time, reflect the day-to-day activities of a Registered Options Principal.

As noted above, CBOE also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, CBOE is proposing to revise the content outline to reflect the adoption of rules in the CBOE rulebook (for example CBOE Rule 3.6 (Persons Associated with TPH Organizations; CBOE Rule 4.24 (Supervision); CBOE Rule 6.25 (Nullification and

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<sup>10</sup> See Exhibit 3, Outline Pages 6 - 22.

<sup>11</sup> See Exhibit 3, Outline Page 15.

<sup>12</sup> See Exhibit 3, Outline Page 15.

<sup>13</sup> See Exhibit 3, Outline Page 15.

Adjustment of Options Transactions including Obvious Errors) and CBOE Rule 12.4 (Portfolio Margin)

CBOE is proposing similar changes to the Series 4 selection specifications and question bank.

Finally, CBOE is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes, CBOE is proposing to: (1) add a table of contents;<sup>14</sup> (2) provide more details regarding the purpose of the examination;<sup>15</sup> (3) provide more details on the application procedures;<sup>16</sup> (4) provide more details on the development and maintenance of the content outline and examination;<sup>17</sup> (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure, and that a statistical adjustment process known as equating is used in scoring exams;<sup>18</sup> and (6) note that each candidate will receive a score report at the end of the test session, which will indicate a pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.<sup>19</sup>

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<sup>14</sup> See Exhibit 3, Outline Page 2.

<sup>15</sup> See Exhibit 3, Outline Page 3.

<sup>16</sup> See Exhibit 3, Outline Page 3.

<sup>17</sup> See Exhibit 3, Outline Page 4.

<sup>18</sup> See Exhibit 3, Outline Page 5.

<sup>19</sup> See Exhibit 3, Outline Page 5.

The number of questions on the Series 4 examination will remain at 125 multiple-choice questions,<sup>20</sup> and candidates will have 195 minutes to complete the examination. The test time will change from 180 minutes to 195 minutes because pretest items increased from 5 items to 10 items. Currently, a score of 70 percent is required to pass the examination. The passing score will change to 72 percent with the revised Series 4 examination program.

### **Availability of Content Outline**

The revised Series 4 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams).

CBOE is filing the proposed rule change for immediate effectiveness. CBOE will announce the proposed rule change in a Regulatory Circular.

### **2. Statutory Basis**

CBOE believes that the proposed revisions to the Series 4 examination program are consistent with the provisions of Section 6(b)(5) of the Act,<sup>21</sup> which requires, among other things, that CBOE rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 6(c)(3) of the Act,<sup>22</sup> which

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<sup>20</sup> Consistent with FINRA's practice of including "pretest" items on certain qualification examinations, which is designed to ensure that new examination items meet acceptable testing standards prior to use for scoring purposes, the examination includes 10 additional, unidentified pretest items that do not contribute towards the candidate's score. Therefore, the examination actually consists of 135 items, 125 of which are scored. The 10 pretest items are randomly distributed throughout the examination.

<sup>21</sup> 15 U.S.C. 78f(b)(5).

<sup>22</sup> 15 U.S.C. 78f(c)(3).

authorizes CBOE to prescribe standards of training, experience, and competence for persons associated with CBOE TPHs. CBOE believes that the proposed revisions will further these purposes by updating the examination program 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 Registered Options Principal.

B. Self-Regulatory Organization's Statement on Burden on Competition

CBOE does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by a Registered Options Principal and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would make the examination more efficient and effective.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and paragraph (f)(1) of Rule 19b-4 thereunder<sup>24</sup>. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(1).

Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2015-095 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2015-095. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for

website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2015-095 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).

EXHIBIT 3  
SR-CBOE-2015-095



# **Registered Options Principal Qualification Examination (Series 4)**

## **Content Outline**

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## **INTRODUCTION**

The Series 4 exam is the Registered Options Principal Qualification Examination. The exam is developed and maintained by the Financial Industry Regulatory Authority (FINRA). This content outline provides a comprehensive guide to the topics covered on the Registered Options Principal Qualification Examination (Series 4). The outline is intended to familiarize exam candidates with the range of subjects covered on the exam, as well as the depth of knowledge required. Sample items are also included to acquaint candidates with the types of multiple-choice items used on the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam.

## **PURPOSE OF THE EXAM**

The Series 4 exam is designed to assess the competency of entry-level Registered Options Principal. It is intended to safeguard the investing public by helping to ensure that Registered Options Principals are competent to perform their jobs. Given this purpose, the Series 4 exam seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to perform the critical functions of a Registered Options Principal. For more information about the permissible activities of a Registered Options Principal, please see NASD Rule 1022(f), which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org).

## **ELIGIBILITY REQUIREMENTS**

The candidate must be associated with and sponsored by a FINRA member firm to be eligible to take the Series 4 exam. In order to register in this category, candidates must first qualify as a General Securities Representative (Series 7), United Kingdom Module of Series 7 (Series 17), Canada Module of Series 7 (Series 37 or 38) or a combination of the Corporate Securities Representative (Series 62) and the Options Representative (Series 42). For more information on eligibility requirements, please see NASD Rule 1022(f), which is viewable in the FINRA Rule Manual through the following link: [www.finra.org](http://www.finra.org).

## **APPLICATION PROCEDURES**

The FINRA member firm that sponsors the applicant must file a Uniform Application for Securities Industry Registration or Transfer (Form U4) in the Central Registration Depository (CRD<sup>®</sup>) and request the Registered Options Principal position (OP) on the Form U4.

## STRUCTURE OF THE EXAM

The exam consists of 125 multiple-choice items, which are distributed among the six major content areas listed in the table below.

**Job Functions and Number of Items by Job Function**

Job Functions		Number of Items
Function 1	Supervise the Opening of New Options Accounts	21
Function 2	Supervise Options Account Activities	25
Function 3	Supervise General Options Trading	30
Function 4	Supervise Options Communications	9
Function 5	Implement Practices and Adhere to Regulatory Requirements	12
Function 6	Supervise Associated Persons and Personnel Management Activities	28
<b>Total</b>		<b>125</b>

## DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAM

The Series 4 Content Outline was developed based on the results of a job analysis study of Registered Options Principals. The job analysis process included collecting data about the job functions, tasks and required knowledge of Registered Options Principals from a wide variety of firms using numerous data collection techniques, including a survey.

Under the guidance of FINRA staff, a committee of industry representatives (“the Committee”) writes, reviews and validates all exam items to ensure and sustain the job relevance of the exam. Exam items are subject to multiple reviews prior to inclusion on the exam, and each item links directly to a component of the content outline. Items vary in difficulty and complexity. Each item has only one correct or best answer.

The bank of items changes frequently as a result of amendments to, or the introduction of, government and self-regulatory organization (SRO) rules and regulations, changes in industry practice, and the introduction of new products. Exam items and their statistical performance are analyzed routinely by FINRA staff and the Committee to ensure relevance to the functions of Registered Options Principals. **Candidates are responsible for keeping abreast of changes made to the applicable rules and regulations as the exam is updated when new rules are introduced and when the rules are amended.**

Candidates should read and answer all items as they apply to exchange-listed standardized options unless an item specifically asks about conventional over-the-counter (OTC) options. Also, unless an item is specifically worded to the contrary, all items involving calculations exclude commissions and other transactions cost considerations.

## **ADMINISTRATION OF THE EXAM**

The exam is administered via computer. A tutorial on how to take the exam via computer is provided prior to the exam. Each candidate's exam includes 10 additional, unidentified pretest items that do not contribute toward the candidate's score. The 10 items are randomly distributed throughout the exam. Therefore, each candidate's exam consists of a total of 135 items (125 scored and 10 unscored). There is no penalty for guessing. Therefore, candidates should attempt to answer all items. Candidates are allowed 3 hours and 15 minutes to complete the exam.

The test administrator will provide a whiteboard/dry erase pens and basic electronic calculators to candidates, who must return these materials to the test center administrator at the end of the testing session. Some exam items may involve calculations. Only calculators provided by the test center administrators are allowed for use during the exam.

Candidates are not permitted to bring any reference material to their testing session. Severe penalties are imposed on candidates who cheat or attempt to cheat on FINRA-administered exams.

## **HOW THE PASSING SCORE IS DETERMINED**

Following a well-established process known as standard setting, FINRA determines the passing score for the examination based on the judgment of a committee of industry professionals with the designated registration. For the Series 4 exam, the passing score is 72%. This passing score reflects the competency needed to hold the designated registration.

## **EQUATING OF TEST SCORES**

All candidate test scores have been placed on a common scale using a statistical adjustment process known as equating. Equating scores to a common scale accounts for the slight variations in difficulty that may exist among the different sets of exam questions that candidates receive. This allows for a fair comparison of scores and ensures that every candidate is held to the same passing standard regardless of which set of exam questions he or she received.

## **CANDIDATES' EXAM RESULTS**

On the day of the exam, candidates will receive a report of their exam results both on screen and in paper format at the end of their exam session. The score report will indicate pass/fail status and a score profile indicating performance based on each major content area covered on the exam. It is recommended that candidates who fail the exam review the information provided on the score report, as they may want to focus on the areas on which they performed poorly when preparing to retake the exam. For security reasons, the exam and individual items are not available for review after taking the exam.

## SERIES 4 CONTENT OUTLINE

### **FUNCTION 1—Supervise the Opening of New Options Accounts**

#### **1.1 Review new account documentation for completeness**

**KNOWLEDGE OF:**

- Different classifications of customers (e.g., institutional, retail)
- Types of accounts (e.g., IRA, trust, fiduciary)
- Documentation requirements for each type of account
- Anti-Money Laundering (AML) requirements
- Customer Identification Program (CIP) requirements
- Due Diligence and Know Your Customer (KYC) requirements

CBOE Rules

- 4.20—Anti-Money Laundering Compliance Program
- 9.7—Opening of Accounts

FINRA Rules

- 2090—Know Your Customer
- 2111—Suitability
- 2360(b)(16)—Options: Requirements: Opening of Accounts
- 3310—Anti-Money Laundering Compliance Program

#### **1.2 Verify proper disclosures are provided to customers within required timeframe**

**KNOWLEDGE OF:**

- Options disclosure document requirements
- Options disclosure document supplements
- Special statement for uncovered option writers requirements
- Margin requirements and related disclosure requirements

CBOE Rules

- 9.7(e)—Opening of Accounts: Options Disclosure Documents to Be Furnished
- 9.7(f)(5)—Opening of Accounts (Special Statement for Uncovered Options Writers)
- 9.10(e)—Discretionary Accounts: Options Programs
- 9.15(a)—Delivery of Current Options Disclosure Documents: Options Disclosure Documents
- 9.15(b)—Delivery of Current Options Disclosure Documents (Special Statement for Uncovered Options Writers)
- 9.21 (.04)—Options Communications: Options Programs
- 12.4(c)—Portfolio Margin: Opening of Accounts

## FINRA Rules

- 2220(d)(5)—Options Communications: Standards Applicable to Communications: Options Programs
- 2360(b)(11)—Options: Requirements: Delivery of Current Disclosure Documents
- 2360(b)(16)(E)—Options: Requirements: Opening of Accounts: Uncovered Short Option Contracts
- 2360(b)(18)(C)—Options: Requirements: Discretionary Accounts: Option Programs
- 2270—Day-Trading Risk Disclosure Statement
- 2360(c)—Options: Portfolio Margining Disclosure Statement and Acknowledgement
- 4210(g)(5)—Margin Requirements: Portfolio Margin: Opening of Accounts

## Securities Exchange Act of 1934

- Rule 10b-16—Disclosure of Credit Terms in Margin Transactions
- SEC Regulation S-P—Privacy of Consumer Financial Information and Safeguarding Personal Information

### 1.3 Review customers' trading objectives and evaluate risk levels to determine if account approval is appropriate

#### KNOWLEDGE OF:

- **Options programs and trading strategies**
- **Minimum net equity requirement for approval of uncovered options accounts**
- **New account information as it relates to various option strategy approval levels**

## CBOE Rules

- 9.7(b)—Opening of Accounts: Diligence in Opening Account
- 9.7(f)—Opening of Accounts (Uncovered Option Contracts)
- 9.8(a)—Supervision of Accounts: Duty to Supervise
- 12.3—Margin Requirements

## FINRA Rules

- 2111—Suitability
- 2360(b)(7)—Options: Requirements: Limit on Uncovered Short Positions
- 2360(b)(16)—Options: Requirements: Opening of Accounts
- 4210—Margin Requirements

### 1.4 Review customer verification and confirm receipt of signed options agreement

#### KNOWLEDGE OF:

- **Customer verification**
- **Authorization and approval of any discretionary handling**
- **Discretionary accounts approval and review requirements**
- **Approval requirements for the opening of options accounts**

CBOE Rules

9.7(c)—Opening of Accounts: Verification of Customer Background and Financial Information

9.7(d)—Opening of Accounts: Agreements to Be Obtained

9.10—Discretionary Accounts

FINRA Rules

2360(b)(16)—Options: Requirements: Opening of Accounts

2360(b)(18)—Options: Requirements: Discretionary Accounts

NYSE Rule

408—Discretionary Power in Customers' Accounts

Securities Exchange Act of 1934

Rule 15c1-7—Discretionary Accounts

## **FUNCTION 2—Supervise Options Account Activities**

### **2.1 Review recommendations to determine if strategies are suitable and within appropriate approval levels**

#### **KNOWLEDGE OF:**

- **Suitability requirements**
- **Requirement to monitor sales activities of registered persons**
- **Requirement to perform suitability reviews to determine if the use of options is consistent with the customer profile**
- **Investment strategies and inherent risks in options transactions**
- **Investment strategies align with customer's investment objectives**
- **Position and exercise limits that impact customer trading**

#### **CBOE Rules**

- 4.11—Position Limits
- 4.12—Exercise Limits
- 4.24—Supervision
- 9.8—Supervision of Accounts (including Interpretations and Policies .01 and .02)
- 9.9—Suitability of Recommendations
- 24.4—Position Limits for Broad-Based Index Options
- 24.4A—Position Limits for Industry Index Options
- 24.5—Exercise Limits
- 24.18—Exercise of American-style Index Options

#### **FINRA Rules**

- 2111—Suitability
- 2360(b)(3)—Options: Requirements: Position Limits
- 2360(b)(4)—Options: Requirements: Exercise Limits
- 2360(b)(19)—Options: Requirements: Suitability
- 2360(b)(20)—Options: Requirements: Supervision of Accounts

### **2.2 Review margin accounts to confirm proper handling and timely adherence to margin requirements**

#### **KNOWLEDGE OF:**

- **Margin implications associated with various strategies**
- **Margin requirements set by regulation for initial/maintenance requirements**
- **Margin calculations**
- **Mark-to-market to calculate required amount of margin**
- **Failure to meet margin call**
- **Portfolio margin**

CBOE Rules

- 12.3—Margin Requirements
- 12.4—Portfolio Margin
- 12.10—Margin Required Is Minimum
- 15.8A—Risk Analysis of Portfolio Margin Accounts

FINRA Rule

- 4210—Margin Requirements

Securities Exchange Act of 1934

- Section 7—Margin Requirements
- Section 8—Restrictions on Borrowing By Members, Brokers and Dealers

Federal Reserve Board Regulation T- Credit by Brokers and Dealers (“Regulation T”)

## 2.3 Review risk exposure of customers’ accounts

**KNOWLEDGE OF:**

- **Calculations for profit, loss and breakeven points of various strategies**
- **Tax implications of options transactions**
- **Impact of tender offers on customers’ accounts**
- **Contract adjustments due to such events as splits, mergers and dividends**

CBOE Rule

- 5.7—Adjustments

FINRA Rule

- 11810—Buy-In Procedures and Requirements

Securities Exchange Act of 1934

- Rule 15c3-3(h)—Customer Protection—Reserves and Custody of Securities: Buy-In of Short Security Differences
- Regulation 14E—Tender Offers

## 2.4 Receive and investigate customer complaints; if necessary, take appropriate corrective actions

**KNOWLEDGE OF:**

- **Requirement to investigate and compile customer complaint information**
- **Appropriate timeframe response**
- **Record retention and segregation requirements**
- **Regulatory reporting of customer complaints**

CBOE Rule

9.23—Customer Complaints

FINRA Rules

3110—Supervision

4513—Records of Written Customer Complaints

4530—Reporting Requirements

2360(b)(17)—Options: Requirements: Maintenance of Records

## **FUNCTION 3—Supervise General Options Trading**

### **3.1 Monitor the general operational process of options trades**

#### **KNOWLEDGE OF:**

- **Electronic order routing/execution**
- **Aggregation of accounts for reporting position limits, exercise limits, and large positions**
- **Exercise notices (e.g., contrary exercise advice)**
- **Impact of option assignments**
- **Options Clearing Corporation assignment procedure and firm/market, maker/customer assignment**
- **Assignment allocation methods (e.g., FIFO, random)**
- **Customer notification of allocation method**
- **Delivery and payment/settlement**

#### CBOE Rules

- 4.11—Position Limits
- 4.12—Exercise Limits
- 4.13—Reports Related to Position Limits
- 4.16—Other Restrictions on Options Transactions and Exercises
- 11.1—Exercise of Option Contracts
- 11.2—Allocation of Exercise Notices
- 11.3—Delivery and Payment

#### FINRA Rules

- 2360(b)(3)—Options: Requirements: Position Limits
- 2360(b)(4)—Options: Requirements: Exercise Limits
- 2360(b)(5)—Options: Requirements: Reporting of Options Positions
- 2360(b)(8)—Options: Requirements: Restrictions on Option Transactions and Exercises
- 2360(b)(23)—Options: Requirements: Tendering Procedures for Exercise of Options
- 11860—COD Orders

### **3.2 Review firm and customer options trading for exceptions**

#### **KNOWLEDGE OF:**

- **Regulation SHO (e.g., short sale and buy-in rules)**
- **Large option position reporting**
- **Order origin codes**
- **Qualified contingent cross**
- **Prohibited activities**
- **Best execution**

- **Order marking**
- **Trades economics**
- **Separation of proprietary, market making and customer trading**

Insider Trading and Securities Fraud Enforcement Act of 1988

Section 3—Civil Penalties of Controlling Persons for Illegal Insider Trading by Controlled Persons

CBOE Rules

- 4.1—Just and Equitable Principles of Trade
- 4.7—Manipulation
- 4.18—Prevention of the Misuse of Material, Nonpublic Information
- 6.24—Required Order Information

FINRA Rules

- 2010—Standards of Commercial Honor and Principles of Trade
- 2020—Use of Manipulative, Deceptive or Other Fraudulent Devices
- 3110—Supervision

Securities Exchange Act of 1934

Section 9—Prohibition Against Manipulation of Security Prices

- Section 9(a)(1) (Misleading appearance of active trading)
- Section 9(a)(2) (Inducing purchase or sale by others)
- Section 9(a)(3) (Dissemination of information as to rise or fall of securities prices)
- Section 9(a)(4) (Making false or misleading statements)
- Section 9(a)(5) (Dissemination of information for consideration)
- Section 9(a)(6) (Pegging, fixing or stabilizing prices)
- Section 9(f) (Liability for unlawful acts or transactions)

Section 10—Regulation of the Use of Manipulative and Deceptive Devices

- Rule 10b-3—Employment of Manipulative and Deceptive Devices by Brokers or Dealers
- Rule 10b-5—Employment of Manipulative and Deceptive Devices
- Rule 10b5-1—Trading “on the Basis of” Material Nonpublic Information in Insider Trading Cases
- Rule 10b5-2—Duties of Trust or Confidence in Misappropriation Insider Trading Cases

Section 15(g)

SEC Regulation NMS—Regulation of the National Market System

SEC Regulation SHO—Regulation of Short Sales

- Rule 200—Definition of “Short Sale” and Marking Requirements
- Rule 201—Circuit Breaker
- Rule 203—Borrowing and Delivery Requirements
- Rule 204—Close-Out Requirement

### 3.3 **Oversee the correction of options trade errors**

**KNOWLEDGE OF:**

- **Cancel and rebills**
- **Error accounts**

CBOE Rules

9.19—Assuming Losses

6.25—Nullification and Adjustment of Options Transactions including Obvious Errors

6.52—Price Binding Despite Erroneous Report

FINRA Rule

11890—Clearly Erroneous Transactions

### 3.4 **Authorize and monitor customer market access**

**KNOWLEDGE OF:**

- **Credit limits/capital limits**
- **Regulatory controls**

Securities Exchange Act of 1934

Rule 15c3-5—Risk Management Controls for Brokers or Dealers with Market Access

## **FUNCTION 4—Supervise Options Communications**

### **4.1 Oversee options telemarketing practices**

#### **KNOWLEDGE OF:**

- **Telemarketing procedures (e.g., do-not-call lists)**
- **Time of day restrictions**

CBOE Rule

9.24—Telemarketing

FINRA Rule

3230—Telemarketing

### **4.2 Review options retail communications and determine appropriate approval**

#### **KNOWLEDGE OF:**

- **Definition of retail communication**
- **Types of retail communications**
- **Required approvals**
- **Requirements for trading programs and option worksheets**
- **Appropriate disclosures**

CBOE Rule

9.21—Options Communications

FINRA Rules

2210—Communications with the Public

2220—Options Communications

2260 Series—Disclosures

NASD Rule

2711(i)—Research Analysts and Research Reports: Supervisory Procedures

Securities Act of 1933

Rule 135a—Generic Advertising

### **4.3 Review incoming and outgoing options correspondence including approval where required**

#### **KNOWLEDGE OF:**

- **Definition of correspondence**
- **Review communications that are sent to customers**

- **Appropriate disclosures**
- **Registered principal reviews of correspondence**

CBOE Rule

9.21—Options Communications

FINRA Rules

2210—Communications with the Public

2220—Options Communications

2260 Series—Disclosures

NASD Rule

2711(i)—Research Analysts and Research Reports: Supervisory Procedures

Securities Act of 1933

Rule 135a—Generic Advertising

**4.4 Review institutional communications and determine appropriate approval**

**KNOWLEDGE OF:**

- **Definition of institutional communication**
- **Identification of institutional communications**
- **Appropriate disclosures**

CBOE Rule

9.21—Options Communications

FINRA Rules

2210—Communications with the Public

2220—Options Communications

2260 Series—Disclosures

NASD Rule

2711(i)—Research Analysts and Research Reports: Supervisory Procedures

Securities Act of 1933

Rule 135a—Generic Advertising

## **FUNCTION 5—Implement Practices and Adhere to Regulatory Requirements**

### **5.1 Establish and oversee compliance with supervisory control functions**

#### **KNOWLEDGE OF:**

- **Supervisory procedure requirements (e.g., discretionary account controls, space-sharing arrangements, gifts and gratuities)**
- **SRO requirements regarding written supervisory procedures**
- **Written options programs**

#### CBOE Rules

- 4.4—Gratuities
- 4.24—Supervision
- 9.6—Branch Offices of TPH Organizations
- 9.8—Supervision of Accounts
- 9.14—Addressing of Communications to Customers

#### FINRA Rules

- 2360(b)(20)—Options: Requirements: Supervision of Accounts
- 3110—Supervision
- 3120—Supervisory Control System
- 3130—Annual Certification of Compliance and Supervisory Processes
- 3160—Networking Arrangements Between Members and Financial Institutions
- 3220—Influencing or Rewarding Employees of Others

### **5.2 Maintain required books and records**

#### **KNOWLEDGE OF:**

- **SRO requirements for options-related record keeping**
- **Retention of options communications**
- **SIPC requirements**

#### CBOE Rules

- 3.4—Foreign Trading Permit Holders
- 3.6—Persons Associated with TPH Organizations
- 9.6—Branch Offices of TPH Organizations
- 9.7—Opening of Accounts
- 9.8—Supervision of Accounts
- 9.10—Discretionary Accounts
- 9.11—Confirmation to Customers
- 9.12—Statements of Accounts to Customers

- 9.13—Statement of Financial Condition to Customers
- 9.14—Addressing of Communications to Customers
- 9.21—Options Communications
- 9.23—Customer Complaints
- 11.2—Allocation of Exercise Notices
- 12.12—Daily Margin Record
- 15.1—Maintenance, Retention and Furnishing of Books, Records and Other Information
- Chapter XV—Records, Reports and Audits

#### FINRA Rules

- 2261—Disclosure of Financial Condition
- 2266—SIPC Information
- 2360(b)(12)—Options: Requirements: Confirmations
- 2360(b)(15)—Options: Requirements: Statements of Account
- 2360(b)(17)—Options: Requirements: Options: Requirements: Maintenance of Records
- 3150—Holding of Customer Mail
- 4510 Series—Books and Records Requirements
- 5340—Pre-Time Stamping
- 7440(a)(4)—Recording of Order Information

#### Securities Exchange Act of 1934

- Rule 10b-10—Confirmation of Transactions
- Rule 17a-3—Records to be Made by Certain Exchange Members, Brokers and Dealers
- Rule 17a-4—Records to be Preserved by Certain Exchange Members, Brokers and Dealers
- Rule 17a-5(c)—Reports to be Made by Certain Brokers and Dealers: Customer Statements
- Rule 17a-8—Financial Recordkeeping and Reporting of Currency and Foreign Transactions
- Rule 17f-1—Requirements for Reporting and Inquiry with Respect to Missing, Lost, Counterfeit or Stolen Securities

#### Securities Investor Protection Act and SIPC Rules Thereunder

## **FUNCTION 6—Supervise Associated Persons and Personnel Management Activities**

### **6.1 Verify the qualifications of newly hired associated persons**

#### **KNOWLEDGE OF:**

- **Pre-hire investigations**
- **New employees' previous registration and work history**
- **Review for statutory disqualification**

#### CBOE Rules

3.6—Persons Associated with TPH Organizations

3.18—Trading Permit Holders and Associated Persons Who Are or Become Subject to a Statutory Disqualification

9.3—Registration and Termination of Representatives

9.6—Branch Offices of TPH Organizations

#### FINRA Rule

3110—Supervision

#### FINRA By-Laws

Article III, Section 3—Ineligibility of Certain Persons for Membership or Association

Article III, Section 4—Definition of Disqualification

Article V, Section 1—Qualification Requirements

#### Securities Exchange Act of 1934

Section 3(a)(39)—Definition of Statutory Disqualification

### **6.2 Review and maintain associated persons' registrations and disclosures**

#### **KNOWLEDGE OF:**

- **Continuing Education requirements (e.g., firm and regulatory elements)**
- **Outside business activities (e.g., secondary employments)**
- **Private securities transactions by registered persons**
- **Employee and employee-related accounts**
- **Sharing in customers' accounts**
- **Lending arrangements**
- **Suspended associated persons**
- **Form U4 and Form U5 updates**
- **Disciplinary actions**
- **Heightened supervision**
- **Qualification and registration requirements of a Registered Options Principal**

## CBOE Rules

- 4.1—Just and Equitable Principles of Trade
- 4.9—Disciplinary Action by Other Organizations
- 9.2—Registration of Options Principals
- 9.3—Registration and Termination of Representatives
- 9.3A—Continuing Education for Registered Persons
- 9.4—Other Affiliations of Registered Associated Persons
- 9.17—Transactions of Certain Customers

## FINRA Rules

- 2010—Standards of Commercial Honor and Principles of Trade
- 3270—Outside Business Activities of Registered Persons
- 1250—Continuing Education Requirements
- 9000 Series—Code of Procedure
  - 9110—Application
  - 9120—Definitions
  - 9130—Service; Filing of Papers
  - 9140—Proceedings
  - 9210—Complaint and Answer
  - 9230—Appointment of Hearing Panel, Extended Hearing Panel
  - 9250—Discovery
  - 9260—Hearing and Decision
  - 9310—Appeal to or Review by National Adjudicatory Council
  - 9350—Discretionary Review by FINRA Board
  - 9370—Application to SEC for Review

## FINRA By-Laws

- Article V, Section 3—Notification by Member to the Corporation and Associated Person of Termination; Amendments to Notification

## NASD Rules

- 2420—Dealing with Non-Members
- 3040—Private Securities Transactions of an Associated Person
- 1022(f)—Categories of Principal Registration: Limited Principal - Registered Options and Security Futures
- 1032(d)—Categories of Representative Registration: Limited Representative - Options and Security Futures

## NYSE Rules

- 345A(a)—Continuing Education For Registered Persons: Regulatory Element
- 345A(b)—Continuing Education For Registered Persons: Firm Element
- 345.11—Employees-Registration, Approval, Records: Investigation and Records

435—Miscellaneous Prohibitions

### 6.3 Maintain marketplace and associated product and regulatory knowledge

#### KNOWLEDGE OF:

- **Order types and trading strategies**
- **When trading rotation and fast markets are used**
- **Trading practices and roles of market participants**
- **Trading halts**

#### CBOE Rules

6.2—Trading Rotations

6.2A—Rapid Opening System

6.2B—Hybrid Opening System (“HOSS”)

6.3—Trading Halts

6.45—Priority of Bids and Offers: Allocation of Trades

6.53—Certain Types of Orders Defined

6.54—Accommodation Liquidations (Cabinet Trades)

6.70—Floor Broker Defined

6.73—Responsibilities of Floor Brokers

8.1—Market-Maker Defined

8.7—Obligations of Market-Makers

8.8—Restriction on Acting as Market-Maker and Floor Broker

8.80—DPM Defined

8.85—DPM Obligations

#### FINRA Rules

5260—Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts

2360(b)(24)—Options: Requirements: Options Transactions and Reports by Market Makers in Listed Securities

6120—Trading Halts

### 6.4 Supervise the conduct of associated persons

#### KNOWLEDGE OF:

- **Terms, definitions and sophisticated strategies related to options products**
- **Noncash compensation regulation**
- **Transactions with customers to prevent improper use of customer assets**
- **Transactions with other professionals**

#### CBOE Rules

1.1—Definitions

- 9.17—Transactions of Certain Customers
- 9.18—Prohibitions Against Guarantees and Sharing in Accounts
- 9.19—Assuming Losses
- 9.25—Borrowing From or Lending to Customers
- Chapter XXIV—Index Options

#### FINRA Rules

- 2150—Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts
- 2360—Options
- 3240—Borrowing From or Lending to Customers
- 4210—Margin Requirements

## SAMPLE ITEMS

The following sample items are included to provide an introduction to the basic formats of multiple-choice items used on the exam. The sample items do not reflect the difficulty level of actual exam items.

Candidates who familiarize themselves with these formats may be able to improve their test-taking skills so their performance on the exam will better reflect their knowledge of the areas tested. An asterisk indicates the correct answer to each sample item.

**Closed-Stem:** The stem (the part that poses the question) is a complete sentence and thus concludes with a question mark. The options (answer choices) may be complete or incomplete sentences.

**Example:** With a broad-based index at 266, a customer writes 1 Feb 270 index call at 2.75, writes 1 Feb 260 put at 2.25, buys 1 Feb 275 call at 1.25 and buys 1 Feb 255 put at 1. What is the maximum potential profit in this position?

- (A) \$225
- (B) \$275\*
- (C) \$500
- (D) \$725

**Open-Stem (Sentence Completion):** The stem is an incomplete statement, and the options represent conclusions to the sentence.

**Example:** A put is considered out-of-the-money when the market price of the underlying security is:

- (A) equal to or higher than the strike price.\*
- (B) lower than the strike price.
- (C) lower than the strike price less the premium.
- (D) higher than the strike price less the premium.

**Except or Not:** "Except" or "not" is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. In such cases, the stem may be open or closed.

**Example:** Listed equity options would **not** be adjusted for which of the following actions in the underlying security?

- (A) A 2-for-1 stock split
- (B) A 1-for-5 reverse stock split
- (C) A stock dividend of 5%
- (D) A cash dividend of \$0.50\*

## REFERENCES

Listed below are government and SRO websites that provide information about rules and other information candidates may find useful in preparing for the exam. In addition to information about rules, the SRO may publish glossaries of terms, explanations of securities products, and compliance procedures. Candidates are encouraged to refer to the SRO websites for information memos or regulatory notices concerning amendments to rules and the announcement of new rules that may relate to the exam. Candidates can purchase copies of federal securities laws and SEC rules through the network of federal government printing offices. However, some of this information may be available on the SRO and pertinent federal government (*e.g.*, the SEC) websites. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. FINRA produces only the content outline and is not involved with nor does it endorse any particular course of study.

### **Chicago Board Options Exchange**

400 South LaSalle St.  
Chicago, IL 60605  
[www.cboe.com](http://www.cboe.com)

### **Financial Industry Regulatory Authority (FINRA)**

1735 K Street  
Washington DC, 20006  
[www.finra.org](http://www.finra.org)

### **Options Clearing Corporation**

[www.theocc.com](http://www.theocc.com)

### **The Options Industry Council**

One North Wacker Drive, Suite 500  
Chicago, IL 60606  
[www.888options.com](http://www.888options.com)

### **Securities and Exchange Commission**

#### **Office of Investor Education and Advocacy**

1-800-SEC-0330  
[www.sec.gov](http://www.sec.gov)

### **Securities Industry/Regulatory Council**

#### **On Continuing Education**

[www.cecouncil.com](http://www.cecouncil.com)