

# **Content Outline for the S201 Regulatory Element**

## **Introduction**

The Securities Industry Continuing Education Program (CE Program), which is required by the rules of several self-regulatory organizations (SRO), is a two-part program composed of a Firm Element and a Regulatory Element. The Firm Element is developed and must be delivered by each firm on an annual basis. The Regulatory Element is developed by industry committees representing a diverse range of broker-dealers, in conjunction with the Securities Industry/Regulatory Council on Continuing Education, industry regulatory agencies and SROs. The CE Program is intended to keep registered securities industry personnel current regarding rules and other issues important to performing their jobs appropriately.

## **The Regulatory Element**

The Regulatory Element requires all registered persons to participate in a prescribed computer-based training session within 120 calendar days of their second registration anniversary date and every three years thereafter. The Regulatory Element is designed to cover significant subject matter that is broadly applicable to all registered persons.

The Regulatory Element focuses on compliance, regulatory, ethical and sales-practice standards. Its content is derived from rules and regulations, as well as standards and practices widely accepted within the industry. Although the specific requirements of certain rules may differ slightly among the various SROs, the program is based on standards and principles applicable to all. In certain instances, particular SRO requirements may be more restrictive than those represented in the Regulatory Element. Additionally, many broker-dealers may have policies and procedures that are more restrictive than industry regulations regarding the types of activities in which their registered employees may engage, the investment products they may represent, and/or specific approvals required for certain functions. Registered persons and their supervisors are responsible for ensuring that their activities are within the scope permitted by their employing broker-dealers and conducted in accordance with the rule requirements of all of the SROs and jurisdictions regulating them.

The S201 Regulatory Element Program is required for Supervisors/Principals. The content for the S201 is organized into four modules, as well as common topics that may be covered in any of the four modules. Topics identified in this outline are covered thoroughly in the modules, and some may be covered in more than one module. The content coverage of each of these modules and the common topics are outlined following this introduction. Unless otherwise specified, the topics are covered at basic levels of knowledge and understanding.

Please note that individuals may see a sample case and the orientation for the Regulatory Element by visiting [FINRA.org](http://FINRA.org). The sample case and orientation is provided as a

resource to those who would like to familiarize themselves with the program format and features. Those required to sit for the Regulatory Element in the near future are encouraged to review the sample case and orientation prior to sitting for their session.

## **Presentation of the Training**

Participants in the S201 are able to choose the order in which to complete the four required modules. In each module of the S201, participants are led through a case that provides a story depicting situations that may be faced by registered persons in the course of their business. Each case contains significant educational content, including optional material called Resources and Glossary Rollovers. Participants must review the story content of each case but may choose whether or not to utilize the optional materials. Participants are encouraged to utilize all of the educational content provided in the S201, including the optional material, as it is designed to aid understanding and enhance the educational experience for the participant.

The format of the cases in the S201 Program is primarily text-based with some media treatments that provide important information, context and education related to the story.

## **Assessment, Proficiency and Timing**

As part of each case, participants are presented a series of questions. These questions, which relate to the story and facts presented in the case, are designed to assess the participants' understanding of the materials presented. The participant must demonstrate his or her understanding of the subject matter by choosing the most appropriate response(s) to questions. If the individual does not demonstrate proficiency with the subject matter, additional content may be provided.

Participants must demonstrate proficiency in each of the four modules of the S201. Participants will be provided a maximum of two cases in each module to demonstrate proficiency. Participants who do not demonstrate proficiency in any one module will not be able to complete the Regulatory Element requirement within that session. In the event a module is not completed, participants may terminate the incomplete session or may continue to review the remaining material for the added educational benefit. In either event, participants will not be able to complete the Regulatory Element requirement in that session and must schedule another session in order to satisfy the requirement.

The S201 Program is designed to provide ample time to complete the required materials within the 3½ hour timeframe allotted. Failure to complete the Regulatory Element within 120 days of the prescribed anniversary date will result in a person's registration becoming inactive.

## **Module A: Supervision and Control**

### **A.1 Review, Approval, and Filing Requirements when Communicating with the Public**

- Review and approval of advertising, sales literature, and correspondence.
- Filing requirements and review procedures of written and electronic communications.
- Required disclosures and restrictions for materials distributed to the public, including, but not limited to:
  - ❖ Testimonials.
  - ❖ Copyrighted material.
  - ❖ Product-specific disclosure documents, such as the Options Disclosure Document (ODD).
  - ❖ Written investment recommendations.
- Guidelines ensuring communications are fair and balanced and do not contain misleading, exaggerated or unwarranted statements, or omit material facts.
- Use of professional designations.
- Supervisory responsibilities for the various methods of communicating with the public, including all forms of electronic communications.
- Prohibited communications, including predictions and projections, guaranteeing performance, and blanket recommendations.
- Prohibited distribution of confidential material including internal-use-only and broker-dealer-use only materials.
- Institutional correspondence and sales materials.
  - ❖ Content standards of sales material and correspondence.
  - ❖ Approval, recordkeeping, and spot-check procedures.
- Telemarketing restrictions, cold calling, various Do-Not-Call lists, Federal regulations applicable to broker-dealers when contacting prospective clients.

## **A.2 Supervisory Controls**

- Associated person conduct and supervision.
  - ❖ Outside business activities.
  - ❖ Outside accounts/investments.
  - ❖ Family/employee related accounts.
  - ❖ Cash/non-cash compensation.
  - ❖ Restrictions, approvals, and disclosure requirements when accepting or paying referral fees.
  - ❖ Political contributions disclosures/solicitations.
  - ❖ Special RR compensation programs, such as new recruitment incentives.
- Exception reports.
  - ❖ Account reviews (active accounts, high turnover rate, large debit balances, overconcentration, profit and loss statements, commissions and fees).
- Sales activities for new products.
- Private securities transactions.
- Referral fees: Restrictions, approvals, and disclosure requirements.
- Books and Records requirements.
- Requirements for conducting transfer or disbursement of funds.
- Registration and reporting requirements.
- Continuing Education Requirements.
  - ❖ Regulatory Element.
  - ❖ Firm Element.

## **A.3 Evaluating and Monitoring Client Suitability**

- Requirements for determining suitability of investments before making recommendations, including institutional investors.

- Responsibilities for obtaining and periodically confirming clients' financial and life profile data, investment objectives, risk tolerance, and time horizon.
- Risks, features, and required disclosures for investment products.
- Solicited (recommended) versus unsolicited (not recommended) transactions.
- Supervision and sales practices used when servicing senior investors.
  - ❖ Account transactions.
  - ❖ Suitability of products.
  - ❖ Public appearances (seminars and speaking engagements).
  - ❖ Diminished capacity.
  - ❖ Use of professional designations claiming expertise in senior issues.

## **Module B: Handling Customer Accounts, Trade & Settlement Practices**

### **B.1 Anti-Money Laundering**

- Recognizing the three stages of money laundering (placement, layering, and integration).
- Anti-Money Laundering Rules, USA PATRIOT Act, and the Bank Secrecy Act.
  - ❖ Customer Identification Program (CIP).
  - ❖ Politically-Exposed Persons.
  - ❖ Potential indicators (“red flags”) to detect money laundering.
  - ❖ Controls to prevent and report Money laundering activities.
  - ❖ Training needs and annual requirements.
- Cash/Equivalents/Deposits & Reporting Requirements.
  - ❖ Currency Transaction Reports (CTRs).
  - ❖ Suspicious Activity Reports (SARs).
- Office of Foreign Assets Control (OFAC).

- ❖ Specially Designated Nationals (SDN) List.
- Financial Crimes Enforcement Network (FinCEN).

## **B.2 Foreign Corrupt Practices Act (FCPA)**

- Prohibited foreign trade practices.
- Antibribery provisions.
- Recordkeeping requirements.

## **B.3 Account Opening and Client Information**

- Procedures for opening and maintenance of client accounts, including required approvals and recordkeeping requirements.
- Understanding the purpose and characteristics of account types, including, but not limited to:
  - ❖ Individual.
  - ❖ Corporate.
  - ❖ Joint Accounts.
    - Joint Tenants with Right of Survivorship (JTWROS).
    - Tenants in Common (TIC).
    - Community Property (CPWROS).
  - ❖ Transfer on Death (TOD).
  - ❖ Custodial account (UGMA/UTMA).
  - ❖ Trust accounts (e.g., Revocable, Irrevocable, etc.).
  - ❖ Charitable and foundation accounts.
  - ❖ Educational funding accounts (e.g., 529 College Savings Plans, Coverdell accounts, and pre-paid state tuition plans).
  - ❖ Retirement accounts.
- Client address issues, such as P.O. boxes and temporary addresses.

- Deceased Accounts.
- Account transfers/ACATS.
- Option accounts/approvals/agreement/ Options Disclosure Documents.
- Penny stock rules and disclosures requirements.
- Confirmations & statements.
- Privacy rules (Regulation SP).
- Safeguarding firm and client information.
  - ❖ IT security.
  - ❖ Document security and destruction.
  - ❖ Outsourcing/third-party vendors.
- Securities Investor Protection Corporation (SIPC): Purpose of SIPC, coverage limits and amounts, disclosures to clients.
- Bank sweep programs: Disclosures regarding protection features, methods of determining interest rates, and compensation.
- Federal Deposit Insurance Corporation (FDIC): An agency of the Federal Government established to insure the deposits of account holders at FDIC member institutions.

#### **B.4 Trade Review and Approval / Reporting Activity**

- Internal controls and requirements for order entry and price reporting.
- Order ticket requirements, such as recording transactions as solicited or unsolicited.
- Order errors/account changes.
- Trade reporting requirements and systems. (e.g., TRACE, OATS, RTRS)
- Short sales.
- Payment and Trade Settlement: General requirements, consequences of nonpayment/nondelivery.

## **B.5 Trading Authorization**

- Orders from someone other than the account owner.
  - ❖ Required instructions, requirements for third-party checks and wire transfers.
  - ❖ Requirements for written authorization for orders.
- Understanding various Powers of Attorney (POA).
  - ❖ Differences between limited and full trading authorization.
  - ❖ Obligations of and limits on fiduciaries, limits on the use of powers of attorney.
- Discretionary Trading/Discretionary Accounts.
  - ❖ Supervision of and required procedures when using discretion.
- Time & Price Discretion.

## **B.6 Client Complaints and Inquiries**

- Requirements for reporting, investigating and documenting client complaints.
- Responding to requests for information.
- Information disclosed in disciplinary records and/or Forms U4 and U5.
- Arbitration procedures and awards.
- Mediation and negotiated settlements.

## **B.7 Prohibited/Fraudulent Practices**

- Definitions and examples of detecting prohibited and improper activities such as: insider trading, circulation of rumors, entering false orders, misappropriation of funds, forgery, unauthorized trading, pre-arranged trading, guarantees to clients, selling away, piggybacking/shadowing, selling dividends, commingling funds, selling to breakpoints, churning, switching, market manipulation, unfair/excessive pricing, front-running, free-riding, parking, and trading at the close/marketing the close.

## **B.8 Margin/Calls/Maintenance/Regulation T/Extensions**

- Supervision of margin accounts.
- Appropriate use of margin and associated risks.
- Obligations for informing clients of risks and benefits.
- Required disclosures.

## **Module C: New and Secondary Offerings and Corporate Finance**

### **C.1 SEC Registration and Prospectus Requirements**

- Registration requirements.
- Preliminary prospectus (red herring).
- Limits on advertising and other written materials.
- Prospectus delivery requirements.
- Prohibition on sales before effective date.
- Restrictions before, during, and after a distribution.
- Rule 144/restricted securities.
- Control persons / affiliated persons.

### **C.2 Research & Investment Banking Conflicts**

- Information Barrier.
- Restricted interaction and communication between research and investment banking personnel (e.g., pitch books, roadshows, and conferences).
- Broker-dealer restricted and watch lists.
- Review of proprietary and employee trading accounts (both in and away from the broker-dealer).
- Research and research reports review and supervision.
- Monitoring the flow of material, nonpublic information to ensure that the information is not misused.

### **C.3 Public Offerings**

- Transactions relating to Initial Public Offerings (IPOs).
- Syndicate activities; policies and procedures when allocating new issue securities to the public.
  - ❖ Indications of Interest (IOI).
  - ❖ Restricted persons and accounts.
  - ❖ Selling Agreement: Agreement between a selling dealer and primary distributor providing for the sale to clients by the selling dealer of open-end fund securities.
  - ❖ Official Statement/Prospectus: Discloses material information about a new issue.
- Secondary Offering/Follow-On Offering/Aftermarket: Regulation M, trading in existing or outstanding shares of securities on either a national exchange or OTC market.
- Electronic Municipal Market Access System (EMMA).

### **C.4 Private Placement Offerings**

- Exemptions from registration.
- Regulation D Offering.
  - ❖ Accredited investor and non-accredited investors.
- Disclosure requirements including, but not limited to Private Offering Memorandum/Subscription Agreement requirements.
- Resale restriction (s).

## **Module D: Product Knowledge and Related Supervisory Considerations**

### **D.1 Mutual Funds**

- Structure and operation of funds.
- Characteristics and policies by investment objectives and underlying investments (e.g., aggressive growth funds, income funds, money market funds, municipal bond funds).

- Share classes.
- Basis of comparison; performance statistics and other factors (e.g., sales and distribution charges, minimum purchase requirements).
- Determination and consequences of Net Asset Value (NAV).
- Sales charges.
  - ❖ Computation and types, such as front end load, level load, contingent deferred sales charge (CDSC), and no load.
  - ❖ Qualification for reduction using breakpoint discounts.
  - ❖ Letters of Intent and Rights of Accumulation.
  - ❖ Expenses and 12b-1 fees.
- Switching, late trading/market timing, exchange privileges/conversions, rights of reinstatement.

## **D.2 Other Open and Closed End Investment Companies**

- Characteristics of Unit Investment Trusts (UITs); Exchange Traded Funds (ETFs); Real Estate Investment Trusts (REITs), and closed-end investment companies.

## **D.3 Variable Contracts**

- Characteristics and types of variable annuities, riders, bonus features, related sales charges and expenses, valuation of a variable annuity contract, and tax considerations of variable annuity contracts in qualified accounts.
- Supervision and review of variable annuity subaccounts.
- Supervision, review, and approval of 1035 Exchanges.
- Supervisory review requirements for sales of deferred variable annuities.
  - ❖ Suitability and disclosure obligations for recommended transactions.
  - ❖ Supervisory review and approval requirements, including the timing of principal approval.
  - ❖ Establishing and maintaining supervisory procedures.

- ❖ Developing and documenting specific training policies and programs.
- Variable Life Insurance (fixed and flexible premium types).
  - ❖ 1035b Exchanges: Tax sheltered exchange of cash value from one annuity policy to the next purchased from different companies.
  - ❖ Characteristics of universal and variable life insurance (e.g., death benefits, cash value, risk premium payments, conversion privileges).
  - ❖ Fees and related expenses (e.g., mortality costs, cost of insurance, investment management fee).
  - ❖ Life Settlement transactions.
  - ❖ Valuation of a variable life insurance policy.
  - ❖ Tax treatment of variable life insurance to the policyholder.

#### **D.4 Supervision of Other Products**

- Equity securities.
- Fixed-income securities.
- Listed and OTC options.
- Preferred/Convertible securities.
- Rights and Warrants.
- American Depository Receipts (ADRs)/American Depository Shares (ADSs).
- Low-priced securities.
- Alternative investments
- Structured products.
- Hedge funds.
- Derivatives; futures and currencies.
- Municipal securities.
- Cash equivalents

- Equity-indexed annuities.
- Life Settlements

## **D.5 Supervision of Other Activities**

- Managed accounts.
- On-line trading.
- Investment Adviser/RR activities.

## **D.6 Retirement Plans**

- Characteristics including eligibility, employee coverage, types of contributions, maximum contribution limits, taxation of investments within a plan, distribution options and allowable exceptions, taxation of distributions, minimum distribution requirements, penalties for premature distributions, rollovers, excess contributions.
- Types of Individual Retirement Accounts (IRAs).
- Employer sponsored plans, including, but not limited to, defined contribution and defined benefit plans, profit sharing plans, money purchase plans, SEP (Simplified Employee Pension) plans, 401(k) plans, 403(b) tax-deferred annuity plans/custodial accounts, SIMPLE IRA/401(k) plans.