

## Chapter 1 — Key Facts

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- .. FINRA's Know Your Customer rule mandates the essential information needed to open and service customer accounts
- .. Representatives must send a copy of the customer profile to the customer within 30 days of account opening
- .. Age, marital status, dependent information, income and expenses, discretionary and disposable income levels, assets and liabilities, liquid assets, net worth, tax status, insurance needs, retirement program participation, estate planning, and wealth events are all included in the relevant information needed to properly profile a customer
- .. Risk tolerance is an important piece of the investor's entire profile and suitability determination
- .. Investment experience, attitude toward risk, time horizon, volatility, inflation, and income levels each play a role in an investor's risk tolerance
- .. An investor's time horizon should include any short-term needs, long-term needs, and any combination of those time frames
- .. Volatility of an investment is often compared to changes in the overall market as measured by beta
- .. Investments with a beta of 1 will mirror the market's volatility, a beta less than 1 is less volatile, and a beta greater than 1 is more volatile than the market
- .. Stocks and stock funds typically provide a hedge against inflation
- .. Investors with higher income levels are typically more risk tolerant than those with lower income levels
- .. To make suitable investment recommendations, firms must make a reasonable effort to obtain certain customer information
- .. Recommendations to hold a current position must remain suitable based on the client's current situation
- .. The 3 main suitability obligations under FINRA Rule 2111 are: Reasonable-basis suitability, customer-specific suitability, and quantitative suitability
- .. Customers with a capital preservation investment objective are very conservative
- .. Investments that fit the capital preservation objective are money market funds and U.S. government bonds or funds
- .. Investments for those seeking capital preservation do not typically keep pace with inflation
- .. Those with investment objective of income could be seeking tax-free income, current income, or high-yield income
- .. Municipal investments should only be recommended for those in high tax brackets seeking tax-free income
- .. Those with a capital appreciation objective are seeking growth in their portfolios
- .. A growth investment objective seeks a return greater than cost basis
- .. Growth investing can be further categorized as conservative, moderate, or aggressive
- .. Aggressive growth investors typically look for investments in small companies, specific sectors, or those with international exposure
- .. Investors with a growth and income objective have two objectives
- .. Portfolios designed for growth and income will typically invest in common stock for growth with the income portion containing dividend paying common stocks, preferred stocks, and bonds.
- .. An investor with an objective of speculation is willing to take on additional risk in return for potentially higher returns

## Chapter 1 — Key Facts

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- Speculative investors may participate in day trading, purchase hedge funds, short sell, and invest in derivatives, and micro-cap stocks
- Systematic risks are risks that cannot be eliminated or reduced through diversification
- The acronym PRIME can be used to help remember the systematic risks: P = Purchasing-power risk, R = Reinvestment risk, I = Interest-rate risk, M = Market risk, E = Exchange-rate risk
- Nonsystematic risks can be lessened or eliminated through diversification
- Nonsystematic risks include capital, business, liquidity, credit, call, taxation, regulatory, legislative, social or political, prepayment and extension, and timing risks
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## Chapter 2 — Key Facts

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- WSP details supervision of associated persons and types of business the firm engages in
- Firms using a risk-based review system are not required to review every transaction
- Order executions and reviews, account approvals, and retail communications occurs in OSJ
- OSJs must be audited annually
- Branch office is any location where RRs engage in securities business
- Branch offices must be audited at least once every 3 years
- The 4 critical pieces required to open accounts are legal name, street address, DOB, SSN or Tax ID #
- The customer's signature is not required to open a new account
- Signature of principal is required on new account forms
- Corporate insiders include an officer, director, or shareholder of 10% or more of a publicly traded company
- Corporate insiders are prohibited from realizing short-swing profits, subject to disgorgement
- Insiders must report to the SEC any changes in stock position within 2 business days
- Requested information includes employer, discretionary income, tax & marital status, and experience
- Without all requested information, RR can open account but cannot make recommendations
- CIP enables the BD to form a reasonable belief that the individual is who they claim to be
- CIP requires firms to keep records of information verifying customer identity for 5 years
- Customer ID is verified with government issued ID or a firm can use non-documentary procedures
- Regulation S-P requires firms to protect customer information and records
- Firms must provide a customer with its privacy policies by providing an initial and annual notice
- Customers can opt out of the firm's policies on disclosing nonpublic financial information
- An individual account with TOD/POD bypasses the probate process
- All owners share equally in a JTWRROS registered account, but a TIC may have an unequal interest
- Corporate resolutions specify which individuals are authorized to trade in a corporate account
- Partnership accounts require a partnership agreement signed by 1 GP to open an account
- Trustees must adhere to Uniform Prudent Investors Act (UPIA)
- Trust transactions are based on beneficiary needs, the trust agreement specifies trading authority
- Regulation T requires customers to pay for securities in T+4 (S+2)
- Margin accounts involve the broker-dealer extending credit to customers
- Customers must sign a margin agreement pledging securities and a hypothecation agreement
- NMFBA is an advisory account that charges an annual fee covering the cost of trades in the account
- NMFBA holders makes all the investment decisions not the IA or IAR
- Wrap accounts assess a fee that covers all investment advisory fees, administrative fees, and trades
- Wrap accounts can only be offered by an IA/IAR and may be managed or non-managed

## Chapter 2 — Key Facts

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- Prime brokerage accounts utilize multiple executing BDs, trade is cleared/settled with prime broker
- Trading authorization is provided by giving power of attorney to a third party
- Full POA and is full discretionary authority allows a third party to place trades and remove assets
- Limited POA and limited discretionary authority only allow a third party to place trades
- A trade is considered discretionary if the RR determines action, asset, or amount
- Representatives can determine time and price without discretionary authority or a POA
- Discretionary authority must be provided in writing and approved by the principal
- Under best execution standards, BDs must make a reasonable effort to determine the best market to execute customer orders
- Interpositioning is not allowed unless it results in a better price to the customer
- Order tickets are prepared at time of execution, signed by principal, and cannot be altered without manager approval
- Written record of changes to an executed order ticket is called a cancel and rebill
- Trade confirmation must be provided to the customer on or before settlement date
- Customer confirmations may only be sent to a third -party with written consent of the customer
- Orders marked DNR are not reduced by dividend or split amount on the ex-dividend date
- BDs send DK notice if there is a discrepancy in confirmations or if one BD fails to send a confirmation
- Adjustments to trades are routed through the firm's error account and handled by supervising principal
- Failure to settle a transaction in T+4 leads to a frozen account for 90 days
- Account statements must be sent at least quarterly, and, if there is account activity, most firms will send account statements monthly
- Account transfers are done through ACATS
- Receiving (new) firm submits TIF to carrying (old) firm within 1 business day of receipt from customer
- Carrying firm must complete transfer within 3 business days
- FINRA requires educational communication be provided to investors when transferring assets
- Account closure requests must be in writing
- Updated account information must be sent to customer within 30 days or with statement if sent monthly

## Chapter 3 — Key Facts

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- .. ERISA establishes standards to protect participants/beneficiaries of employer-sponsored retirement plans in the private sector
- .. ERISA Section 404(c) mandates plans offer at least 3 investment alternatives
- .. Qualified plan contributions reduce taxable income and distributions are 100% taxable
- .. Premature distributions prior to 59½ may be subject to a 10% penalty on the taxable portion
- .. Defined benefit plans have a pre-set benefit upon retirement and favor older employees
- .. Defined contributions may be stated as a dollar amount or percentage of earnings
- .. Profit-sharing plan contributions are discretionary and may be skipped in unprofitable years
- .. 401(k) plans are corporate plans that allow employers to match employee contributions within limits
- .. A SEP is an employer-established IRA for each employee that is fully funded by the employer
- .. SIMPLE plans are for employers with 100 or fewer employees and are established as an IRA or 401(k)
- .. 403(b) plans are for eligible employees of public-school systems and nonprofit organizations
- .. Nonqualified plans may discriminate and are often used as a benefit to retain key employees
- .. Deferred compensation plans defer a portion of income to a specified later date
- .. 457 plans may be for government employees or tax-exempt organizations other than churches
- .. Nonqualified employee stock options create a taxable event when exercised
- .. For nonqualified employee stock options, the bargain element is the CMP - exercise price and is taxed as ordinary income
- .. Incentive stock options are taxable when the stock is sold, and bargain element could be subject to AMT
- .. Anyone with earned income can contribute to a traditional or Roth IRA
- .. Excess IRA contributions are subject to a 6% penalty each year until withdrawn from the account
- .. Traditional IRAs have RMDs starting no later than April 1 of the year after account owner reaches age 73
- .. Failure to take an RMD results in a 25% penalty on the RMD that was not distributed
- .. Traditional IRA contributions may be tax deductible
- .. Distributions from IRAs of deductible contributions are subject to federal and state income taxes
- .. An IRA transfer moves assets from one trustee to another with no limit to number of transfers per year
- .. An IRA rollover involves the owner taking possession of the assets
- .. Rollover assets must be placed into a new IRA within 60 days and 1 rollover per 12 months is allowed
- .. Roth IRA contributions are made after tax, there is no age restriction on contributions, and no RMD
- .. Roth distributions are tax-free if account has been open 5 years and the owner is over the age of 59 ½
- .. Traditional IRAs can be converted to Roth IRAs if the taxes are paid at conversion

## Chapter 4 — Key Facts

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- The sale of a new security by an issuer is a primary offering
- The first time an issuer sells stock to the public is called an initial public offering (IPO)
- An underwriter (U/W) is a BD firm that helps an issuer sell securities to the public
- The U/W agreement details the U/W fees, amount issuer needs to raise, and the POP
- The underwriting spread is the difference between the POP and what the issuer receives per share
- U/W may share in the liability of distribution of shares by forming a syndicate
- A selling group may be formed to help sell the offering quickly without liability for unsold shares
- U/W spread compensates the managing U/W, syndicate and selling group
- The Securities Act of 33 and the blue-sky laws require a security to be registered unless exempt
- A registration statement provides potential investors with material information about the offering
- Registration statements become the prospectus, official statement, or disclosure document
- The SEC does not approve of any offering. They review filings for full and fair disclosure
- A final or statutory prospectus is the full prospectus and is an offer to sell
- The prospectus must be delivered at or prior to confirmation of sale
- Private placements are sold under Reg D and are exempt transactions
- Accredited investors purchase restricted stock or letter stock through a private placement
- Restricted stock cannot be resold in secondary market for minimum of 6 months
- Full disclosure of a Reg D offering must be made through an Offering Circular/PPM
- Intrastate offerings are sold under Rule 147 and are exempt transactions
- Corporations may raise money by selling shares of stock which represents an ownership position
- Preferred stock has priority over common stock regarding dividends and bankruptcy
- Preferred stock has an inverse relationship between interest rates and price
- Corporations can borrow money from investors through the sale of bonds
- A trust indenture is the legal agreement outlining the terms of the loan with bondholders
- Bonds may be secured by real estate, buildings, equipment, or securities of another company
- Debentures are long- term unsecured debt
- Income bonds are issued by corporations in financial difficulty and have no legal obligation to pay
- Bonds, like other fixed-income securities, have interest-rate risk
- T-bills are short term government debt, do not pay interest, and are purchased at discount
- T-bonds and T-notes pay semiannual interest and are purchased at par
- T-STRIPS are U.S. Treasury zero-coupon bonds issued at a discount and maturing at par
- TIPS are government bonds with an adjustment of principal every 6 months based on CPI changes
- GNMA pass-through certificates have interest and principal guaranteed by U.S. government
- Municipal new issues use an official statement as the disclosure document
- A preliminary official statement does not include price and interest rates
- Competitive underwriting requires an official notice of sale to be published

## Chapter 4 — Key Facts

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- .. Municipal bonds are federally tax-exempt with an opinion of legal counsel that qualifies them
- ..  $\text{Tax-Equivalent Yield} = \text{Municipal Yield} \div (100\% - \text{Tax Bracket})$
- ..  $\text{Tax-Free Yield} = \text{Corporate Yield} \times (100\% - \text{Tax Bracket})$
- .. Money markets are short-term debt instruments that are highly liquid with safety of principal
- .. Commercial paper is short-term, unsecured, corporate debt maturing in 270 days or less and highly rated
- .. Bankers' acceptances are used to finance foreign trade
- .. Negotiable CDs are money market securities, brokered CDs are not
- .. Hedge strategies involve buying an option as "insurance" to protect your stock position
- .. Income strategies involve selling an option to earn income in a flat market
- .. Covered call writing is an income strategy used by portfolio managers and means you own the stock

## Chapter 5 — Key Facts

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- UITs have a fixed portfolio, are not actively managed, and are redeemable with the issuer
- UITs have professional selection of portfolio holdings with lower fees due to no active management
- Management companies may be open-end, known as mutual funds, or closed-end
- Investors purchase mutual fund shares at the POP and redeem at NAV
- POP and NAV are calculated at the end of each business day
- Mutual fund purchases are always new issues that require prospectus delivery at or before time of sale
- The BOD oversees activities of the fund's investment adviser, transfer agent, custodian, and wholesaler
- The BOD establishes the fund's investment objectives and sets investment guidelines for the portfolio
- The BOD along with a shareholder majority must approve the fund's 12b-1 fee
- A 12b-1 fee is an annual asset-based fee that covers ongoing distribution and advertising costs
- At least 40% of the BOD must be nonaffiliated, independent, or disinterested members
- The IA manages the fund's portfolio, must meet the fund's investment objective, and is registered with the SEC
- The IA must have a written contract, the initial contract is for 2 years then renewed annually
- The expense ratio measures efficiency of the fund by dividing the fund expenses by average net assets
- Sales charges are not fund expenses and are not part of the expense ratio
- Closed-end funds have a single primary offering and are publicly traded in the secondary market
- Closed-end share prices are based on supply and demand and may trade at, above, or below the NAV
- Closed-end funds only require a prospectus delivery during the initial offering
- Traditional ETFs are passively managed portfolios that track an index and have lower management fees
- Traditional ETFs are registered as open-end funds but are traded throughout the day and are not redeemable
- Leveraged ETFs use derivatives and bonds to magnify returns of the underlying index
- Inverse ETFs use derivatives to receive returns that are opposite of the underlying index
- Interval funds are registered as closed-end funds but continuously offer their shares based on NAV
- Interval funds periodically make tender offers to buy back shares from investors
- Regulated investment companies (RIC) must pass on at least 90% of its NII to investors
- Realized capital gains are not part of NII and are 100% passed through to investors
- Municipal fund securities require a program disclosure document instead of a prospectus
- Investors may contribute \$16k per year into a 529 plan without incurring a gift tax
- 529 plan contributions are nondeductible and there is no income limit for eligibility
- 529 earnings are not taxable if used for qualified education and the balance may be transferred
- ABLE account max is \$100k without disabled individuals losing SS, Medicaid, and Medicare benefits



## Chapter 6 — Key Facts

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- .. Fund objectives include value, income, growth, growth and income, and capital preservation
- .. Growth funds invest in common stocks for capital appreciation
- .. Aggressive growth funds invest in small-cap emerging companies and have higher risk and volatility
- .. Value funds invest in large-cap common stocks currently undervalued due to market inefficiencies
- .. Blended funds combine investing styles of value stocks and growth stocks for capital appreciation
- .. Equity funds seeking income invest in preferred stock and high dividend paying common stock
- .. Sector funds invest in companies in a particular industry and can be extremely volatile
- .. Corporate bond funds offer higher risk and returns than government or municipal bond funds
- .. U.S. Treasury funds are considered very safe but are subject to interest-rate risk and inflation risk
- .. Municipal bond funds earn federal tax-free income and are suitable for investors in high tax brackets
- .. Money market funds are suitable for capital preservation and/or liquidity
- .. Asset allocation funds divide assets among different asset categories
- .. Target-date funds adjust the holdings and asset mix over time based on the target date
- .. Balanced funds invests in stocks/bonds/money market instruments based on formula in prospectus
- .. International funds invest in non-U.S. stock
- .. Global funds invest in foreign and domestic stock
- .. Index funds are passively managed with lower operating and management fees
- .. Mutual fund purchases and redemptions are processed at end of the day when NAV is calculated
- .. Late trading is taking advantage of market moving information and violates federal law
- .. Sales charges compensate the U/W & BD for marketing, advertising and redeeming fund shares
- .. Front-end sales charge is a percentage of POP (not NAV) and cannot exceed 8.5%
- ..  $NAV + \text{Sales Charge (in dollars)} = POP$
- ..  $(POP - NAV) \div POP = \text{Sales Charge \%}$  and may be stated as  $(\text{Ask} - \text{Bid}) \div \text{Ask} = \text{Sales Charge \%}$
- ..  $POP = NAV \div (100\% - \text{Sales Charge \%})$
- .. 12b-1 fees cannot exceed 1.00% of NAV per year and are charged quarterly
- .. Class A shares charge an upfront sales load and have the lowest 12b-1 fees
- .. Class B shares charge a back-end load (CDSC) that decreases annually and have higher 12b-1 fees
- .. Class B shares are converted to Class A shares once the CDSC drops to zero
- .. Class C shares charge 1% annually and have higher 12b-1 fees
- .. No-Load funds do not charge a sales load and can assess a 12b-1 fee no higher than .25% per year
- .. Dollar-cost averaging does not guarantee profits or protect against losses
- ..  $\text{Average price per share} = \text{Total of share prices (\$)} \div \text{number of times purchases are made}$

## Chapter 6 — Key Facts

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- Average cost per share= Total amount invested (\$) ÷ number of shares purchased
- If redemption occurs within 7 days of purchase, the BD must return selling concession to fund U/W
- Systematic withdrawal plans can be fixed dollar, fixed share, fixed percentage, or fixed time period
- Redemption fees are charged to discourage mutual fund market timing
- Investors must receive redemption proceeds within 7 calendar days of request
- A holding period of 12 months or less represents a short-term gain taxable at ordinary income rates
- A holding period of at least 12 months and one day is a long-term gain taxable at preferential rates
- Capital loss occurs when shares are redeemed for less than cost basis and capital gains/losses are netted
- After netting, unused capital losses may offset up to \$3k ordinary income and carried forward
- Capital gains are distributed on an annual basis based on the fund's holding period
- Qualified dividends are taxed at long-term capital gains rates
- Ordinary dividends are taxed as ordinary income and is distinguished on Form 1099
- Cost basis includes total purchase price plus any reinvested dividends and/or gains
- Cost basis can be established using the Average cost basis, Share identification, or FIFO
- A prospectus is a comprehensive risk disclosure document
- Prospectus includes objectives, investment policies, restrictions, charges, and financial statements
- Mutual funds must update their prospectus every 16 months
- Prospectus must be delivered at or before the time of confirmation
- Registered reps may not modify, summarize, or alter the prospectus in any manner
- A summary prospectus with an application must disclose where additional information is located
- Mutual funds must send audited annual reports to the SEC and shareholders
- Mutual funds must furnish semiannual reports to shareholders
- The Statement of Additional Information (SAI) is available upon request
- The names rule requires funds with a geographical focus to invest at least 80% of assets in investments tied to the name of the fund
- To call a fund tax-exempt, at least 80% of investments must be in tax-exempt vehicles
- Selling just below a breakpoint, or failing to disclose a breakpoint, is a breakpoint sales violation

## Chapter 7 — Key Facts

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- .. Variable contracts are insurance products and require a securities and state insurance license to sell
- .. Variable life has cash value growth dependent upon the performance of the separate account
- .. Variable life has a death benefit that fluctuates, but the face amount is the guaranteed minimum
- .. Variable universal life has flexible premiums and no guaranteed minimum death benefit
- .. VUL cash value is not guaranteed and fluctuates based on the performance of the separate account
- .. Cash values of variable products are held by the insurer in a separate account and are subject to market risk
- .. The securities held in the separate account require prospectus delivery at or prior to time of sale
- .. The subaccounts, held within the separate account, give the contract owner different investment choices
- .. Separate account valuation is calculated daily at 4 p.m., and policy cash values must be calculated at least monthly
- .. Variable life policy loans allow policyowners to borrow up to 75% of cash value
- .. The free look provision is either 45 days from execution of application or 10 days after policy delivery, whichever occurs later
- .. Policies terminated in the first 2 years refund owners the cash value and part of the sales charges
- .. Variable contracts may be converted/exchanged to whole life within 24 months from issuance without proof of insurability
- .. The fees deducted from separate accounts are expense risk, mortality risk, and investment management fees
- .. LTC riders allow access to the death benefit to pay for LTC expenses
- .. Death benefits are not subject to income tax when paid to the beneficiary
- .. 1035 exchanges allow investors to exchange policies without current income tax liability
- .. An annuity cannot be exchanged for a life insurance policy tax-free
- .. The accumulation period of an annuity is the pay-in period, and the annuity period is the payout period
- .. Annuity payout options may not be changed once the contract has been annuitized
- .. The life income option provides the highest monthly income and payments cease when annuitant dies
- .. The life income with period certain is payable for life or a specified period, whichever is longer
- .. Life income with refund will refund the beneficiary any balance not received by the annuitant before death
- .. Funds invested in a variable annuity are held in separate accounts with no performance guarantee
- .. The number of annuity units paid during the annuity period is fixed, but the value fluctuates
- .. The assumed interest rate (AIR) is a benchmark that is fixed for the life of the annuity contract
- .. VA payments fluctuate based on the performance of the separate account compared to the AIR

## Chapter 7 — Key Facts

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- .. If the annuitant dies prior to annuitization, the beneficiary receives the greater of CMV or premiums paid
- .. Death benefits on annuity contracts are taxable to the beneficiary on any amount above cost basis
- .. Stepped-up death benefit riders allow investors to lock in annuity contract values on specified days and guarantee the stepped-up amount or contract value minus withdrawals, whichever is greater
- .. A GMIB rider guarantees a minimum income benefit regardless of contract value
- .. Partial surrenders and withdrawals made during the accumulation phase are taxed on a LIFO basis
- .. Annuity withdrawals prior to age 59½ may be subject to a 10% penalty on the taxable portion
- .. The exclusion ratio determines the portion of each payment that is excluded from taxation during the annuity phase
- .. VA contracts must promptly be transmitted to the OSJ for review/approval within 7 business days

## Chapter 8 — Key Facts

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- Modern Portfolio Theory seeks the best portfolio to maximize returns given the level of risk
- The CAPM determines the RRR of a portfolio factoring in any risk taken above the risk-free rate
- The 3 factors in calculating the CAPM is risk-free rate, beta and expected return of the security
- The risk premium is the amount earned above the risk-free rate (T-bill rate)
- Beta > 1.0 is more volatile than overall market and < 1.0 is less volatile than overall market
- Positive beta moves in the same direction as the market, negative beta moves in the opposite direction
- Alpha measures the results of a portfolio manager above a relevant index
- Active management of a portfolio involves paying a management fee
- Passive management has no active investment manager resulting in lower expenses
- Fundamental analysts use financial statement to determine what securities to buy or sell
- The balance sheet is a statement of a company's financial position at a point in time
- Current assets include cash, accounts receivable, marketable securities and inventory
- Current liabilities include accounts payable, wages, taxes and any debt payable within 12 months
- Net-working capital measures the company's liquidity, efficiency and overall financial health
- The income statement is used to determine the profitability of a company
- The statement of cash flow is an indication of a company's ability to pay its bills
- Technical analysts use charts, trends, and patterns to determine when to buy or sell securities
- An overbought market/security is an indicator of a future price decline
- An oversold market/security is an indicator of a future price increase

## Chapter 9 — Key Facts

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- Regulation Best Interest establishes standards of conduct for BDs/IAs and mandates the use of Form CRS
- Regulation BI consists of 4 component obligations: Care, disclosure, conflict of interest, and compliance
- Form CRS provides investors with information to help them compare services between firms and make informed decisions
- Firms must make reasonable efforts to obtain contact information of a trusted contact person
- Firms may place a temporary hold of up to 15 days on an account if fraud is suspected
- Additional holds may be placed if the firm believes a customer is being financially exploited. Total amount of holds cannot exceed 55 days
- Customer complaints must be given immediately to manager for resolution and records kept 4 years
- Retail communication is printed/electronic communication directed to >25 investors in 30 days
- Correspondence is written/electronic communication sent to 25 or fewer retail customers within 30 days
- WSP addresses procedures for supervising correspondence, internal communication, and complaints
- Advertising is retail communication where firm has no control over who sees the material
- Retail communications must be approved by a principal prior to use and kept on file 3 years
- FINRA requires retail communications be filed within 10 days of first use
- Static content is posted for extended periods and does not involve real time conversation
- Static content must be approved by principal prior to use and may be required to file with FINRA
- Interactive communication is done in real-time and does not require prior approval
- BDs retain all communications, correspondence, scripts, research reports for 3 years after last use
- BDs that offer an investment analysis tool must provide FINRA access within 10 days after first use
- Muni advertisements must be approved in writing prior to first use and kept on file
- Associated persons must receive written consent from BD before opening account at another firm
- New firm must send duplicate account confirmations & statements to the employing firm upon request
- If a BD is subject to tape recording conversations, the firm has 60 days to establish procedures
- A BD may choose to reduce staff below threshold levels within 30 days to avoid tape recording rule
- BD records retained for 6 years include customer account records, blotters, muni complaints, POA
- Complaints or suspected violation of rules are handled through FINRA's Code of Procedure (CoP)
- The accused member of the complaint has 25 days to respond
- The Hearing Panel will announce findings and issue written decision upholding complaint or dismissing

## Chapter 9 — Key Facts

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- .. Decision of hearing panel becomes final after 45 calendar days, and may be appealed to the NAC
- .. Appeals must be filed within 25 days of decision and the appeal will be heard by NAC within 45 days
- .. Appeals of NAC decisions may be made to the SEC
- .. The SEC decision may be appealed to the federal court
- .. Arbitration decisions are final, binding, and cannot be appealed
- .. Firms/representatives cannot force customers to arbitration and the customer must agree in writing
- .. A predispute arbitration agreement is voluntarily agreeing to arbitration
- .. Code of mediation is informal and voluntary with an impartial mediator helping to seek resolution
- .. If parties involved in mediation cannot reach a settlement, the matter can still be arbitrated or litigated