



REGULATORY INFORMATION BULLETIN

RB-02-03
April 26, 2002

TO: All Members, Member Organizations and ETP Holders

FROM: Financial & Operational Compliance Department

RE: Series 7 Requirement

This bulletin is a reminder to all Members that Exchange rules require certain persons associated with a Member, Member Organization or ETP Holder (collectively "Member Firm") to successfully complete the Series 7 General Securities Registered Representative Examination. PCX Options Rule 9.27 and PCX Equities Rule 9.27 both require associated persons of PCX Member Firms whose activities involve direct contact with the public to meet the qualifications of a General Securities Registered Representative or Registered Options Principal. A Registered Representative is sponsored by an NASD Member Firm in order to complete the Series 7 and must meet continuing education or comparable requirements.

PCX registration rules also require the Series 7 as a qualifying exam for certain associated persons whose activities do not involve direct contact with the public. In these situations, the Series 7 is a qualifying examination required in lieu of the Floor Broker or Options Market Maker examinations developed and administered by the PCX. In general, the following associated persons of Member Firms are required to take the Series 7: (1) persons who direct or conduct off-floor trading, (2) options floor personnel conducting a limited public business with professional customers, and (3) Market Maker Authorized Traders. Exemptions are based on a firm's primary business activity, a firm's designated examining authority, or a person's prior registration history.

Definitions

The term "**associated person**" means an individual who is directly engaged in a Member Firm's business activities, including partners, members of a limited liability company, trustees of a business trust, officers, directors, managers (or any person occupying a similar status or performing similar functions), or any person directly or indirectly controlling, controlled by, or under common control with a Member Firm, or any employee of a Member Firm.

The term "**trader**" includes any person (a) who is directly or indirectly compensated by a Member Firm, or who is an associated person of a Member Firm, and (b) who trades, makes trading decisions with respect to, or otherwise engages in the proprietary or agency trading of securities.

The term "**Series 7**" means the *Qualification Examination for General Securities Registered Representatives*. This examination is administered by the NASD to persons associated with NASD

Member Firms who conduct a public securities business. The Exchange requires all PCX Member Firms who conduct a public securities business to obtain an NASD membership and meet applicable NASD registration and qualification requirements.

Series 7 Testing Requirement Rules

The following Exchange rules require the Series 7 exam and are applicable to Member Firms that do not conduct a public business (proprietary or agency activities only):

PCX Options Rule 1.7(b)(9)(A) requires off-floor traders of Member Firms for whom the PCX is the DEA to successfully complete the Series 7 exam. This rule is applicable when the primary business of the Member Firm involves the trading of securities that is unrelated to the functions of an Options Market Maker or Options Floor Broker. For the purposes of the rule, the term primary business means greater than 50% of the Member Firm's business.

PCX Options Rule 6.43(b)(1)(A) requires Floor Brokers and Floor Clerks conducting a limited public business with professional customers to successfully complete the Series 7. "Professional Customer" includes a bank, trust company, insurance company, investment trust, a state or political subdivision thereof, a charitable or nonprofit educational institution regulated under U.S. laws, or any state, or pension or profit sharing plan subject to ERISA or similar statute, or any person (other than a natural person) who has, or who has under management, net tangible assets of at least 16 million dollars.

PCX Equities Rule 2.4(b)(10)(A) requires all traders of Member Firms for whom the PCX is the DEA to successfully complete the Series 7 exam. This rule is applicable when the primary business of the Member Firm involves the trading of securities that is unrelated to the functions of a Market Maker on the Archipelago Exchange. For the purposes of the rule, the term primary business means greater than 50% of the Member Firm's business.

PCX Equities Rule 7.21(b)(2) requires a person registered as a Market Maker Authorized Trader ("MMAT") on the Archipelago Exchange to successfully complete the Series 7 exam. This requirement may be waived if the applicant MMAT has served as a Specialist or Market Maker on a registered national securities exchange or association for at least 2 consecutive years within 3 years of the date of application.

Form U-10

In the event an associated person of a PCX Member Firm is required take the Series 7 and the person is not associated with an NASD Member Firm, s/he must complete and submit a Form U-10 (*Uniform Examination Request for Non-NASD Candidates*). A \$200 testing fee and a completed Form U-10 should be submitted to the Membership Department. Checks should be made payable to NASD Regulation, Inc. In order for the Pacific Exchange to authorize the associated person to take the Series 7, the person must also have a Form U-4 and Fingerprints on file with the Exchange. These items must be submitted with the Form U-10 if they are not on file.

Series 7 Examination Scores

An associated person of a PCX Member Firm that is required to take the Series 7 must provide proof of his/her passing score to the Membership Department. For persons associated with an NASD Member Firm, this information is typically available to staff via the Web CRDSM. All other persons must provide a copy of their Series 7 exam results directly to Membership staff.

Due to substantive changes made to the Series 7 exam over time, the Exchange does not accept Series 7 exam scores that are over 10 years old. An individual who passed the Series 7 over 10 years ago will be required to retake the Series 7, unless the person can establish that one of the following exemptions exists at the time of his/her registration with the PCX:

- The Series 7 exam is not required for a person who was registered as a General Securities Representative or Supervisor with an NASD Member Firm within the past 2 years. The former registration(s) must be verifiable on the Web CRDSM.
- The Series 7 Exam is not required for a person who is registering as an MMAT of the Archipelago Exchange, if the person was properly registered as a Specialist or Market Maker on a national securities exchange for 2 consecutive years within the last 3 years. The former registration(s) must be completely and truthfully reflected on the person's Form U-4.

Please note that the Exchange does not provide Series 7 study materials. Further, taking the Series 7 exam to fulfill qualification requirements pursuant to Exchange rules does not qualify an individual as a *General Securities Representative*. Such registration status is only obtainable to persons associated with an NASD Member Firm.

Questions regarding this bulletin can be directed to the Financial & Operational Compliance Department at 415-835-4899 or to the Membership Department at 415-393-4114.