



Section 1

- **Form U5 - must be submitted within 30 days of termination from the firm**
- **Only the SEC can reinstate a CRD that has a statutory disqualification**
- **Continuing Education**
 - Firm Element - Program to be updated every year
 - Regulatory Element - 2 years, 3 years after that.
- **Gifts:**
 - \$50 max to any member of an exchange in any given year
 - \$100 max to any broker, dealer or institution in any given year
- **Prior written consent must be given for another firm to access an account**
- **Price guarantees are always illegal.**
- **Profit-sharing agreements**
 - written consent is needed
 - payout must be directly related to contribution
 - cannot be changed at any time
- **Records:**
 - Business establishment records must be kept on file for lifetime
 - all transactions must be kept for 3 years in an easily accessible place
 - all transaction must be accessible for 6 years

Section 2

- **Auction Market**
 - Bids (buyers) & Offers (sellers)
 - real time
 - bids/offers matched for sale
- **Broker** - Trades the account of others
- **Dealer** - Trading own account through the broker
- **Open-end investment**
 - issues more shares
 - based on net value of shares
 - sell back to fund Closed-end investment
- **Closed-end investment**
 - Fixed # of shares
 - Market pricing / supply & demand pricing
 - Open Market
- **SRO - Self Regulatory Organization**
 - cannot send someone to Jail.
 - established in securities act of 1934
- **FINRA - Member Funded - No Funding From SEC**
- **OCC - Options Clearing Corp**
 - Becomes the buyer for every seller and the seller for every buyer

- **DTCC - Depository Trust Clearing Corp.**
 - DTCC - Clears equities / bonds
 - DTC - Subsidiary of DTCC - provides settlements

- **DTC Services**
 - Custody & safekeeping
 - underwriting
 - deposit & withdrawal
 - Dividend, reorganization, proxy
 - restricted family services
 - Direct Registration Service

- **Market-maker: makes transactions as dealer-specialist on exchange**
 - SEC Definition: ready to buy/sell at quoted price on a regulator basis
 - Designated market-maker has no obligation to display quotes

Section 3

- **Dividends**
 - *Declaration Date* - Inform public of dividend intent
 - *Record Date* - Record shareholders who will be paid
 - *Ex-dividend Date* - Date by which the stock must be purchased in order to receive a dividend

- **Stock Splits**

- **Reverse Stock Splits**

- **Preferred Stock**
 - Voting Rights
 - Dividend Priority
 - Payment Priority in a liquidation

- **ETF - Electronically Traded Fund**
 - *Broad-Based ETFs*
 - *Narrow-Based ETFs*
 - Operation unit typically 50,000 shares

- **ADR - American Depository Receipts (Foreign Stocks)**
 - Institution responsibilities:
 - converting dividend & distributing
 - convert right offerings
 - distribute information non non-us developments

- **Regulation M:** unlawful to bid/offer during a restricted period

- **Options**
 - American Exercise - Equity Options
 - European Exercise - Index Options
 - Expiration: Friday following third Saturday in the month
 - can be traded until 4:15 on date of expiration

- **Premiums**
 - underlying price
 - strike price
 - interest rate
 - dividend
 - expiration time
 - volatility

- **Delta** - Change in option premium

- **Gamma** - change in delta

- **Theta** - time based change

- **Vega** - volatility based change

- **In-the-money:** 1 cent above strike price of underlying security

- **out-of-the-money:** at least 1 cent below strike price

- **FX Options:**
 - Only Japanese Yen trades in 1,000,000 unit lots
 - Other currencies in 10,000 or 100,000 denominations
- **Shorts** - locate must be documented and approved before order entry

Section 4

- **Options Principal = Series 4**
- **Options Disclosure Agreement Needed**
- **OPRAH - Options Price Reporting Authority**
- **Clearing Agency**
 - Securities that may be transferred or loaned
 - DTCC in this case
- **Inducing purchase or sale by others is illegal**
- **Dissemination of information as to rise & fall of securities prices**
- **No lining bids at the close**
 - **pegging/fixing/stabalizing**
- **Anti-Money Laundering (AML)**
 - Every year 3rd party must validate
 - must maintain signed principal record
 - 2 years on site
 - 3 years in an accessible place
- **Chinese Walls**
 - Limits flow of information to individuals/ departments to comply.
- **Front-Running** - marking up customer price to profit off the spread
- **Marking-the-close** - placing a large number of buy/sell orders on the close

- **30-day wash sale** - no claiming loss when same investment was purchased 30 days before/after sale date.
- **Pre-arranged Trading** - Creating the illusion of false volume
- **2005 - regulation SHO locate/close-out standards**
 - **locate requirement** - must locate borrow before shorting
 - **close-out requirement** - must close out only if large number of delivery failure exists
 - **Threshold Securities** - if delivery failures exist, no shorting these stocks.
 - 5 day delivery failure
 - 10,000 shares or .5% of outstanding stock fails to deliver
 - **3 SHO Violations:**
 - selling without locate (naked short-selling)
 - failure to deliver at settlement
 - failure to deliver at settlement to drive price down
- **B/D must mark every order as Long, Short, Short Exempt**
 - waiver can be granted by commission
- **Best Execution** - no middle man unless there is a benefit to the customer
 - **Considerations:**
 - lower price
 - execution price
 - probability that order gets filled
- **Pace-time priority** - order must be executed in the order in which they are received

- **Do Not Trade List** - go to compliance if you traded a stock on the list
- **Limits - 6 months**
 - 20,000,000 shares OR 50,000 contracts
 - 40,000,000 shares or 75,000 contracts
 - 80,000,000 shares or 200,000 contracts
 - 100,000,000 shares or 250,000 contracts
- **Cabinet Trade** - deep out of the money
 - only contracts at .01 cent can be placed in cabinet
- **Block-size**
 - At least 10,000 shares
 - Market Value >\$200,000
- **Directed Order:** Customer Dictated Route/Venue
- **Sweep Order-**
- **Marketable limit order**
 - Buy order with limit price > national best offer @ time
- **Protected bid/offer** - displayed & protected price by Nasdaq
- **30-second response** - execute whole order or quote limit size
- **Market maker must make electronic reports monthly**
- **Locking / Crossing quotes**
- **Step Out** - position transfer to another BD (no need to sell out and buy in a new account)
- **Give-up** - clearing will execute trade if b/d can't

- **Options Exercise** - 5:30 PM on day before expiration
- **Exercise prior to ex-dividend date** - must exercise prior to ex-dividend date to receive a dividend on the stock.
- **Option settlement:**
 - next day - t+1
 - equities - t+3
 - unmatched options trades must be resolved by 9:15AM next day
- **Contracts must be "exercised advice" by 4:20 PM or 5 minutes after the close if exempt**
- **OCC Assignment** - randomly assigns contract exercise to clearing members holding stock
- **Risk-based haircut** - can't use full security capital for net capital
- **Order Ticket Contains**
 - 1) Clearing firm (give up)
 - 2) Clearing Symbols / Marks
 - 3) Symbol
 - 4) Date
 - 5) Number of contracts/shares
 - 6) Price
 - 7) Account Number
 - 8) Market Center
- All exchange transactions must clear through corporation and no other transactions without the consent of the exchange

Section 5

- **Facilitation Order:** only to be executed in cross-transaction
- all accepted bid/offer on exchange constitute a binding contract
- **Public Customer Interest** - Can't manipulate price by taking same side in stock & option
- **Spread - no more than:**
 - $< \$2 = \0.25
 - $< \$5 = \0.40
 - $< \$10 = \0.50
 - $< \$20 = \0.80
 - $> \$20 = \1
- **Halt** - Down 10% in a 5 minute bar
- **Fair Markets** - must take action in best interest of fair & orderly markets
- **Trading Hours** - 9:30 AM - 4 PM EST (Eastern Standard Time)
- **ATS** - Alternative Trading System (I.E. ECNs)
- **Outside of normal hours**
 - Between 9:30 AM - 4:00 PM - 30 seconds
 - 6:30 PM - Midnight = 8:15 AM marked as/of
 - Midnight - 8 AM = 8:15 AM next day
- **Public Customer Order** - Orders executed by time arrived if price is the same
- **Prohibition on payments for market making**
 - no payments to brokers to manipulate how orders are entered.

Additional Terms & Concepts

- **OCC** is the option clearing court & it clears the options
- **OPRAH** is the market data for options
- The supervision for this is the regulators options principal (series 24)
- Anybody who wants to trade options is called the **options disclosure document**
- **Cash Settlement for options** – cash same day, 2:00 is the last time you can do a trade, 2:30 is the cutoff time for delivery of that money
- Regular settlement for **options is the next day**
- **Fail to deliver** = 13 days (10 + 3 = 13)
- **Register Principal** – CEO and CCO are the people of authority in the equities section, for options it is the ROP (Series 4)
- Trading times are **9:30-4:00 pm** Eastern Standard Time (Central Time is 1 hour behind Eastern)
- Broad based index option is **9:30-4:15 pm** Eastern Standard Time
- Options expiration is the 3rd Friday of the month at **4:00 pm** & this is your **last trade of expiration**
- The 3rd Saturday at 11:59pm (following the 3rd Friday) is the **last time you can exercise** an option
- **Option Contract Settlement** – stock delivery of the option is T + 3 (if you exercise it takes 3 days)
- When you are in the money by at least a penny at expiration there will be an **automatic exercise**
- Currency options follow the **same rules** at equity options

- A call = buy = long = hold = position creates a debit spread = right to buy
- A put = sell = short = writing it = position creates a credit spread = right to sell
- At Expiration there are **3 choices**:
 - 1) Exercise the option
 - 2) Let it expire – When long call is greater than or equals to the market price you buy the strike price, when less than the market price you sell the strike price
 - 3) Sell the option before the expiration date – you get the premium

Position	Maximum Gain	Maximum Loss
Long Call	Unlimited	Premium
Short Call	Premium	Unlimited*
Long Put	Strike Price – Premium	Premium
Short Put	Premium	Strike Price - Premium

*Reg T = 100% margin requirement

- Continuing education **after first 2 years, every 3 years** it must be done
- **AML** = occurs once a year & must be documented
- You **don't** report marriage for the U4
- All **options** outside of Japan is 10,000
- **Japanese** contracts are 1,000,000
- **1 point premium** = \$100

- If **bullish** – buy calls or sell puts
- **Exchange traded options** are also known as listed options
- **Eastern account** (key words) – unsold, undivided
- **Western account** (key words) – sold, divided
- Regulation **SP** is the **privacy** act = privacy of customers information
- Time reporting of trades
 - Dot T = **Trade modifier**, trades places outside normal business hours
 - As/of = reported **next day** at 8:15
 - ACT = **20 minutes** for trade confirms
- **Nasdaq pink sheets**, 3rd market bulletin board = 30 seconds
- **Only sell side** reports on ACTs (only sellers)
- 12 midnight – 8 am = dot T
- **Must** be reported between 8 and 8:15
- 8 – 9:30 = 30 seconds
- 9:30 – 4pm = 30 seconds
- 4 pm – 8 pm = dot T
- 8 pm – 12 midnight = as/of
- 4 questions each for Act of 33 and Act of 34

- **1933** = must be filed with SEC, prevents fraudulent activity
- **1934** = secondary trading, prevents fraudulent practices, more oversight with the SROs

Know the books & records

- **P&S** – when money is sent, it must be posted within 24 hours
- **Transfer Agent** – for a corporation, responsible for issuing securities in correct name
- **Right** – short term, price below market price, may trade with or separate with common stock
- **Warrant** – long term, price higher than market price, may trade with or separate with units
- **Warrants** are offered as sweeteners
- **Factors that affect premium** – volatility, time left, intrinsic value, interest rate
- **Option closing transactions** – if opened by buying then you close by selling (& vice versa)