

appropriate notice and comment can take place after the proposed amendment is effective. The primary purpose of the amendment is to allocate surveillance, investigation, and enforcement responsibilities for Rule 14e-4 under the Act, as well as certain provisions of Regulation SHO. By declaring it effective today, the Amended Plan can become effective and be implemented without undue delay. The Commission notes that the prior version of this plan immediately prior to this proposed amendment was published for comment and the Commission did not receive any comments thereon.<sup>17</sup> Furthermore, the Commission does not believe that the amendment to the plan raises any new regulatory issues that the Commission has not previously considered.

## VI. Conclusion

This order gives effect to the Amended Plan filed with the Commission in File No. 4-709. The Parties shall notify all members affected by the Amended Plan of their rights and obligations under the Amended Plan.

*It is therefore ordered*, pursuant to Section 17(d) of the Act, that the Amended Plan in File No. 4-709, between the FINRA and BOX, filed pursuant to Rule 17d-2 under the Act, hereby is approved and declared effective.

*It is further ordered* that BOX is relieved of those responsibilities allocated to FINRA under the Amended Plan in File No. 4-709.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-83483; File No. SR-MSRB-2018-04]

### Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To, Among Other Things, Amend MSRB Rule G-3 To Restructure the MSRB's Current Municipal Securities Representative Qualification Examination and Harmonize Certain MSRB Qualification Requirements With FINRA Rules

June 20, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act" or "Exchange Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 8, 2018 the Municipal Securities Rulemaking Board (the "MSRB" or "Board") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the MSRB. 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

The MSRB filed with the Commission a proposed rule change to amend MSRB Rule G-3, on professional qualification requirements, to (i) restructure the MSRB's current Municipal Securities Representative Qualification Examination ("Series 52"); (ii) harmonize certain MSRB qualification requirements with the Financial Industry Regulatory Authority's ("FINRA") rule change to make modifications to its representative-level qualification program, consolidate NASD and Incorporated NYSE registration and qualification rules, and amend its continuing education ("CE") requirements (hereinafter "FINRA's consolidated rule change");<sup>3</sup> and (iii) make technical changes to Rule G-3 (collectively the "proposed rule change"). The MSRB has filed the proposed rule change for immediate

effectiveness pursuant to Section 19(b)(3)(A) of the Act<sup>4</sup> and Rule 19b-4(f)(6)<sup>5</sup> thereunder. The MSRB proposes an operative date of October 1, 2018, to coincide with the effective date of FINRA's consolidated rule change.

The text of the proposed rule change is available on the MSRB's website at [www.msrb.org/Rules-and-Interpretations/SEC-Filings/2018-Filings.aspx](http://www.msrb.org/Rules-and-Interpretations/SEC-Filings/2018-Filings.aspx), at the MSRB's principal office, 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 MSRB 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 specified in Item IV below. The MSRB 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

MSRB The MSRB is charged with setting professional qualification standards for brokers, dealers, and municipal securities dealers ("dealers"), and municipal advisors. Specifically, Section 15B(b)(2)(A) of the Act authorizes the MSRB to prescribe "standards of training, experience, competence, and such other qualifications as the Board finds necessary or appropriate in the public interest or for the protection of investors and municipal entities or obligated persons."<sup>6</sup> Section 15B(b)(2)(A)(iii) of the Act also provides that the Board may appropriately classify associated persons of dealers and municipal advisors and require persons in any such class to pass tests prescribed by the Board.<sup>7</sup> Accordingly, over the years, the MSRB has adopted professional qualification standards to ensure that associated persons of dealers and municipal advisors attain and maintain specified levels of competence and knowledge for each classification category. The purpose of the proposed rule change is to generally harmonize Rule G-3 with approved amendments to

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

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

<sup>3</sup> On July 7, 2017, the SEC approved FINRA's consolidated rule change to: (1) restructure FINRA's representative-level qualification examination program; (2) adopt amendments to consolidate NASD and Incorporated NYSE rules as FINRA's consolidated qualification and registration rules; and (3) amend FINRA's CE requirements. See Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (SR-FINRA-2017-007).

<sup>4</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>5</sup> 17 CFR 240.19b-4(f)(6).

<sup>6</sup> See 15 U.S.C. 78o-4(b)(2)(A).

<sup>7</sup> See 15 U.S.C. 78o-4(b)(2)(A)(iii).

<sup>17</sup> See *supra* note 12 (citing to Securities Exchange Act Release No. 72137).

<sup>18</sup> 17 CFR 200.30-3(a)(34).

FINRA's professional qualification and registration rules in furtherance of promoting regulatory consistency with respect to qualification requirements. To that end, the MSRB is proposing to (i) require the Securities Industry Essentials (SIE) examination as a prerequisite for the Series 52 examination; (ii) restructure the Series 52 examination into a specialized knowledge examination; (iii) amend Rule G-3 to further harmonize with FINRA's consolidated rule change by providing for permissive registrations and relief to individuals from having to requalify by examination by recognizing the financial services affiliate ("FSA") waiver program; and (iv) make other amendments that are technical in nature.

### Background

FINRA's consolidated rule change reflected a multi-year effort to not only create a consolidated FINRA rulebook, but to create the SIE and tailored, specialized knowledge examinations for its particular registration categories, and also to enhance its registration rules to afford firms greater flexibility to develop and maintain a depth of registered associated persons with professional qualifications. The consolidated rule change began, in part, in December 2009, with the publication of FINRA Regulatory Notice 09-70<sup>8</sup> requesting comment on, among other things: (i) Revising the categories of permissive registrations to allow any associated person to obtain and maintain any registration permitted by the member; and (ii) establishing a process by which a person working for a financial services affiliate of a member would be permitted to re-associate with a member without having to meet the necessary qualification requirements.<sup>9</sup>

In May 2015, in connection with its continued efforts to streamline its registration and qualification rules, FINRA published Regulatory Notice 15-20<sup>10</sup> seeking comment on a proposal to restructure its representative-level qualification examination program. The restructured program consists of the SIE examination paired with specialized knowledge examinations for specific representative-level qualifications. The SIE examination is designed to cover

fundamental knowledge that is commonly tested across the representative-level examinations, such as product knowledge, functions of the regulatory agencies, and structure of the securities markets. Each specialized knowledge examination would test knowledge of concepts and rules specifically corresponding to a particular representative-level qualification.

In March 2017, FINRA's consolidated rule change was filed with the SEC to: (i) Consolidate, with amendments, the NASD and Incorporated NYSE qualification and registration rules; (ii) restructure FINRA's representative-level qualification examination program with the creation of the SIE; and (iii) amend FINRA's CE requirements. All proposed amendments were subject to notice and comment through FINRA's previous requests for comments. FINRA's proposed rule change was published for comment in the **Federal Register** on April 10, 2017; the SEC received 18 comments in response to the proposal, which FINRA responded to on June 26, 2017.<sup>11</sup> The SEC found that the proposal was consistent with the requirements of the Exchange Act and the rules and regulations thereunder and approved FINRA's proposed rule changes.<sup>12</sup> Thereafter, FINRA announced that its consolidated rule change would become effective on October 1, 2018 in Regulatory Notice 17-30 (October 2017).

The MSRB conducted a review of its qualifications program to determine where it was appropriate to harmonize with FINRA's consolidated rule change. Provided below is a detailed description of the proposed amendments to Rule G-3.

### Description of the Proposed Amendments to Rule G-3—Designed To Promote Regulatory Consistency With FINRA's Consolidated Rule Change Permissive Registrations

FINRA's consolidated rule change expanded the scope of permissive registrations under NASD Rules 1021

and 1031 to eliminate a constraint that only certain associated persons of a member could obtain permissive registrations and to codify such provisions as FINRA Rule 1210.02. Specifically, as approved, FINRA Rule 1210.02 allows any associated person of a member to obtain and maintain any registration permitted by the member irrespective of the functional role of the person at the firm. In addition, FINRA Rule 1210.02 provides that a person maintaining a permissive registration would be deemed a registered person of the firm and be assigned an appropriately registered supervisor who would be responsible for periodically contacting such individual's direct supervisor to verify that the individual is not engaging in activities outside the scope of his or her current role.<sup>13</sup> The individual would nevertheless be subject to all FINRA rules to the extent relevant to their activities.<sup>14</sup>

The MSRB is proposing to amend Rule G-3 to adopt Supplementary Material .03 that would similarly allow dealers to have any associated person at a dealer maintain certain MSRB qualifications. More specifically, any individual associated with a dealer would be allowed, if permitted by the dealer, to obtain and maintain a registration as a municipal securities representative, a municipal securities principal or a municipal fund securities limited principal. Additionally, proposed Supplementary Material .03 would make clear that individuals maintaining permissive registrations pursuant to Rule G-3 would be considered qualified persons and, to the extent relevant to the person's activities, the person would be subject to applicable MSRB rules.<sup>15</sup> The MSRB recognizes that allowing dealers to

<sup>13</sup> An individual's day-to-day supervisor may be a non-registered person, however an appropriately registered supervisor would be responsible for periodic check-ins to make sure that the individual is not acting outside the scope of his or her assigned functions.

<sup>14</sup> For example, FINRA rules that relate to interactions with customers would not be applicable to the conduct of a permissively-registered individual who does not have any customer contact.

<sup>15</sup> At this time, the MSRB does not believe it is necessary to be prescriptive in this area and identify each potential rule that a permissively-qualified person would be subject to based on a particular set of activities. For example, the MSRB notes that a rule such as Rule G-47, on time of trade disclosure, would have very little application to a person holding a permissive qualification who does not have customer contact regarding the purchase or sale of municipal securities. Bearing that in mind, a facts and circumstances analysis would apply as to the securities laws and regulations applicable to persons holding permissive qualifications, and such a determination would need to be made by the dealer, as part of its supervisory obligations, under Rule G-27.

<sup>8</sup> See Regulatory Notice 09-70 (FINRA Requests Comment on Proposed Consolidated FINRA Rules Governing Registration and Qualification Requirements) (December 2009).

<sup>9</sup> FINRA received over 20 comments in response to Regulatory Notice 09-70.

<sup>10</sup> See Regulatory Notice 15-20 (FINRA Requests Comment on a Concept Proposal to Restructure the Representative-Level Qualification Examination Program) (May 2015). FINRA received over 20 comments in response to Regulatory Notice 15-20.

<sup>11</sup> The SEC received another comment letter in response to FINRA's response to comments. See Letter from Michele Van Tassel, President, Association of Registration Management, to Afshin Atabaki, Associate General Counsel, Financial Industry Regulatory Authority (July 21, 2017).

<sup>12</sup> Specifically, the Commission found that the proposed rule change was consistent with Section 15A(b)(6) of the Exchange Act, 15 U.S.C. 78o-3(b)(6), which requires, among other things, that FINRA rules 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 15A(g)(3) of the Exchange Act, 15 U.S.C. 78o-3(g)(3), which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

maintain permissive qualifications for associated persons would support a greater regulatory understanding of the municipal securities market by persons currently in capacities not requiring a qualification classification, and would further develop the knowledge and skills of qualified persons, as it relates to the municipal securities market, by allowing permissive qualifications specific to the municipal securities business. Additionally, by harmonizing with FINRA's related rule on permissive registrations, the industry is afforded the opportunity to continue to develop a robust workforce and a depth of associated persons holding professional qualifications for purposes of better managing unanticipated staffing changes.

#### FSA-Waiver Program

FINRA's consolidated rule change adopted Rule 1210.09, which established a waiver program for any individual registered with a member who subsequently leaves the firm to work for a financial services industry affiliate of a member,<sup>16</sup> whereby, upon re-association with a member, an individual may be granted a waiver from having to requalify by examination ("FSA-waiver"). In order to be granted a waiver under FINRA Rule 1210.09, an individual must be initially designated as FSA-eligible at the time the individual terminates association with a member and the individual must have satisfied the criteria, under FINRA Rule 1210.09 for an FSA-waiver.

Additionally, under FINRA Rule 1210.09, to be eligible for an initial designation as an FSA-eligible person by a FINRA member, an individual must have been registered for a total of five years within the most recent 10-year period prior to the designation. Once designated as FSA-eligible, the individual is eligible for an FSA-waiver for up to seven years, so long as the individual is continuously working for a financial services industry affiliate of a member and other conditions are satisfied.

Pursuant to FINRA Rule 1240, during the period an FSA-eligible person is working for a financial services industry affiliate, the person is required to complete the Regulatory Element portion of CE that correlates with such person's most recent registration

category and based on the same CE cycle had the person remained registered. Consequently, a person loses the ability to qualify for an FSA-waiver if such person fails to complete the mandatory Regulatory Element portion of CE. FINRA Rule 1210.09 provides that once an FSA-eligible person re-associates with a FINRA member, the firm can file a Form U4 (Uniform Application for Securities Industry Registration or Transfer) and request that the individual's prior FINRA registration(s) be reinstated without having to requalify by examination.

The MSRB is proposing to amend Rule G-3 to adopt Supplementary Material .04 that would allow a municipal securities representative, municipal securities principal and/or a municipal fund securities limited principal<sup>17</sup> to be eligible for a waiver from having to requalify by examination, for such MSRB qualifications, if the following conditions are met:

1. An individual must have been registered with a dealer for a total of five years within the most recent 10-year period prior to working for a financial services industry affiliate, which shall be a legal entity that controls, is controlled by or is under common control with a dealer and is regulated by the SEC, CFTC, state securities authorities, federal or state banking authorities, state insurance authorities, or substantially equivalent foreign regulatory authorities.

2. The individual has continuously worked for a financial services industry affiliate(s) of a dealer since terminating association with a dealer;

3. The individual has completed the Regulatory Element portion of CE consistent with the requirements under Rule G-3(i)(i)(A) based on the person's most recent registration status and such CE has been completed based on the same cycle, as if the person had remained registered;

4. The individual does not have any pending or adverse regulatory matters, or terminations and has not otherwise been subject to a statutory disqualification while working for a financial services industry affiliate(s) of a dealer; and

5. The waiver request is made within seven years of the individual's initial designation as an FSA-eligible person.

The MSRB is also proposing to amend Rule G-3(h)(i) to provide that associated

persons that have met the conditions under Supplementary Material .04 shall be granted an FSA-waiver consistent with Rule G-3(h)(i)(A) and (B). Providing for such waivers allows associated persons of dealers a greater opportunity to enhance their financial services industry knowledge without having to requalify by examination each time a person decides to explore different career opportunities with a financial services industry affiliate of a dealer.

#### Qualified Persons Functioning as Principals for a Limited Period

Currently Rule G-3(b)(ii)(D) provides that an individual qualified as a municipal securities representative, general securities representative or general securities principal may function as a municipal securities principal for a period of 90 days before passing the Series 53 exam; and pursuant to Rule G-3(b)(iv)(B)(4) an individual qualified as a general securities representative, investment company/variable contracts limited representative, general securities principal or investment company/variable contracts limited principal may function as a municipal fund securities limited principal for a period of 90 days before passing the Series 51 exam. In addition, Rule G-3(c)(ii)(D) provides that an individual qualified as a municipal securities representative, general securities representative or general securities principal may function as a municipal securities sales principal for a period of 90 days before passing the General Securities Sales Supervisory Qualification Examination (Series 9/10).

FINRA's consolidated rule change modified a similar FINRA provision<sup>18</sup> permitting a registered person of a member to function as a principal before passing the applicable principal examination, increasing the time period from 90 calendar days to 120 calendar days, to better align the time frame with the current examination enrollment window.<sup>19</sup> In addition, FINRA imposed an experience requirement providing that a registered person must have at least 18 months of experience functioning as a registered representative within the five-year period immediately prior to being permitted to function as a principal,

<sup>16</sup> The term "financial services industry affiliate of a member" as defined under FINRA Rule 1210.09 is "a legal entity that controls, is controlled by or is under common control with a member and is regulated by the SEC, CFTC, state securities authorities, federal or state banking authorities, state insurance authorities, or substantially equivalent foreign regulatory authorities."

<sup>17</sup> An individual who has passed the Municipal Securities Representative Qualification Examination (Series 52), Municipal Securities Principal Qualification Examination (Series 53) and Municipal Fund Securities Limited Principal Qualification Examination (Series 51), respectively.

<sup>18</sup> FINRA's consolidated rule change amended NASD Rule 1021 as FINRA Rule 1210.04.

<sup>19</sup> An examination enrollment window is the timeframe between a person registering for a professional qualification examination and taking the examination.

without the applicable principal qualification examination.

Accordingly, the MSRB is proposing to amend Rule G-3(b) and (c) to extend the limited time period in which a person could function as a principal without being qualified with a principal examination, assuming other qualification requirements are met, from 90 days to 120 calendar days in furtherance of also better aligning with the current examination enrollment window. The MSRB is also proposing to amend Rule G-3(b) and (c) to require that, before a qualified representative can be permitted to function as a principal for 120 calendar days without passing a principal examination, the qualified representative must have at least 18 months of experience within the five-year period immediately preceding the designation as principal. The MSRB believes that establishing an experience requirement ensures that individuals designated to supervise activities have an appropriate level of experience as a qualified representative before acting as a principal without passing the principal examination. For this reason, the 18-month experience requirement will not apply to a qualified principal who is designated to function in another principal capacity for 120 days before passing the additional principal qualification examination.

#### Continuing Education Program Requirements

##### A. Regulatory Element

Currently, Rule G-3(i)(i)(A)(2) provides that any registered persons who have not completed the Regulatory Element portion of CE within the prescribed time frames will have their municipal securities registration(s) deemed inactive until the Regulatory Element requirements have been satisfied. Rule G-3(i)(i)(A)(2) also requires for any person whose registration has been deemed inactive that such person must cease all activities as a registered person and prohibits such person from performing any duties and functioning in any capacity requiring registration.

FINRA's consolidated rule change codified existing guidance in NASD's Notice to Members 95-35, regarding the impact of failing to complete the Regulatory Element portion of CE on a person's activities and compensation, as FINRA Rule 1240(a)(2). Specifically, approved FINRA Rule 1240(a)(2) provides that any person whose registration has been deemed inactive under the rule may not accept or solicit business or receive any compensation

for the purchase or sale of securities.<sup>20</sup> FINRA's approved rule also prescribes that a person deemed inactive for failing to complete the Regulatory Element portion of CE within the prescribed time frames may, if it does not violate the firm's policy, receive trail or residual commissions resulting from transactions that were completed before the person's registration status was deemed inactive. The MSRB is proposing to amend Rule G-3(i)(i)(A)(2) to adopt the provision restricting any person whose municipal securities registration(s) have been deemed inactive for failing to complete the Regulatory Element portion of CE from receiving any compensation for transactions in municipal securities, except for trails, residual commissions, or like compensation resulting from transactions completed before the person's inactive status, unless the dealer's policy prohibits such trails, residual commissions or like compensation. The MSRB recognizes that, by adding the clause "like compensation," the proposed amendment would provide flexibility as to the types of compensation permitted under the rule as compared to FINRA's approved rule. However, the MSRB believes that such differentiation is warranted to recognize the various compensation arrangements for associated persons of dealers with respect to transactions in municipal securities. For example, the compensation received by an associated person that is part of a dealer's public finance underwriting team is generally not characterized as commissions.

##### B. Firm Element

Currently, Rule G-3(i)(i)(B), on Firm Element continuing education, requires that a dealer maintain a continuing education program for its covered registered persons to enhance their securities knowledge, skill and professionalism. The MSRB has supported a principles-based approach to compliance in this area and afforded dealers' considerable flexibility in developing the scope and content for their Firm Element portion of CE subject to the enumerated minimum standards for a firm's training programs. A dealer's Firm Element portion of CE, as prescribed in Rule G-3(i)(i)(B)(2)(b), must cover, with respect to municipal securities products, services and strategies offered by the dealer, at a minimum:

- (i) General investment features and associated risk factors;
- (ii) Suitability and sales practice considerations; and
- (iii) Applicable regulatory requirements.

FINRA's consolidated rule change also requires, pursuant to FINRA Rule 1240, that each member maintain a continuing education program for its covered registered persons to enhance their securities knowledge, skill and professionalism and that the training be appropriate for the business of the member and, at a minimum, cover, among other things, training in ethics and professional responsibility. The MSRB is proposing to amend Rule G-3(i)(i)(B)(2)(b) to adopt a similar provision to require dealers to also include training in ethics and professional responsibility for its registered persons. The MSRB believes such training promotes high standards of professionalism for registered persons.

##### Registration Status of Armed Forces

The MSRB does not currently have a rule that provides an inactive status for an associated person that volunteers for or is called to active military service in the Armed Forces of the United States that would allow such person's registration to be tolled.

FINRA's consolidated rule change consolidated NASD Rule IM-1000-2 as FINRA Rule 1210.10 with certain changes, which affords relief to a registered person who volunteers for or is called to active military service in the Armed Forces of the United States by tolling such person's lapse of registration and CE obligations. More specifically, FINRA Rule 1210.10 allows, after proper notification to FINRA, for a member to place a registered person on inactive status, whereby such person does not have to re-register upon returning to active employment. An associated person who is placed on inactive status may either return to active employment with the firm the person remained registered with during the person's inactive status period or associate with a different firm. FINRA Rule 1210.10 also relieves registered persons on such inactive status from having to complete either the Regulatory Element or Firm Element portion of CE during their active military service.

Additionally, during the pendency of the registered person's inactive status, the person may continue to receive transaction-based compensation, including continuing commissions. The employing member may also allow an inactive person to enter into an

<sup>20</sup> The MSRB believes that this prohibition is adequately addressed currently in Rule G-3(i)(i)(A)(2) and, therefore, is not proposing to adopt FINRA's provision that more specifically articulates that such persons are prohibited from accepting or soliciting business.

agreement with a registered person of the member to take over and service clients' accounts, on behalf of the person, and to share transaction-related compensation based upon business generated by the accounts.

A person who is no longer registered with a member will generally have their professional qualifications lapse after a period of two years. However, FINRA Rule 1210.10 provides that, for purposes of determining the two year period, a formerly registered person who volunteers for or is called to active military service will have that time tolled, commencing on the date the person began active service.<sup>21</sup> FINRA Rule 1210.10 also provides that a sole proprietor who volunteers for or is called to active military service will be placed on inactive status and, in addition to the relief provided under FINRA Rule 1210.10, as a registered person, the sole proprietor will not be required to pay dues or assessments during the inactive period and will not be required to pay an admission fee upon returning to his or her investment banking or securities business.

Rule G-3 generally provides that an individual who is not associated with a dealer or municipal advisor for a period of more than two years will have his or her professional qualifications lapse, requiring such person to requalify by examination upon re-associating with a dealer or municipal advisor. The MSRB is proposing to amend Rule G-3 to adopt Supplementary Material .05, which would provide that, for purposes of determining the two-year period, a formerly qualified associated person who volunteers for or is called to active U.S. military service will have that time tolled commencing on the date the person began active military service. Importantly, Supplementary Material .05 would preserve the time tolled by establishing that the MSRB must receive notice of the person's period of active U.S. military service within 90 days following the completion of such person's active U.S. military service.<sup>22</sup> Absent such notice, the deferral will terminate and the period of time while

on active U.S. military service will not have been tolled.

In addition, proposed Supplementary Material .05 would permit an associated person of a dealer or municipal advisor that is qualified under Rule G-3, upon volunteering for or being called to active U.S. military service, to be deemed inactive until the associated person returns from active U.S. military service. Additionally, under the proposed rule change, during the period the associated person is on active U.S. military service, the person would remain eligible for transaction-related compensation, including continuing commissions and the firm could permit the inactive person to enter into an agreement with a qualified associated person of the dealer or municipal advisor to have such qualified associated person service clients on behalf of the inactive person and share transaction-related compensation resulting from the municipal securities or municipal advisory business generated by the accounts. In addition, an associated person of a dealer or municipal advisor would not be subject to the applicable CE obligations under Rule G-3(i) during the period of active U.S. military service, provided the MSRB receives notice of the associated person's period of active U.S. military service within 30 days of completion of such service.<sup>23</sup>

Proposed Supplementary Material .05 would also provide that a dealer or municipal advisor sole proprietor who temporarily closes his or her business by reason of volunteering for or being called into active U.S. military service shall be placed, on an inactive status after notice to the MSRB. As a result, in addition to the relief provided to the sole proprietor as a qualified associated person, the sole proprietor will not be required to pay fees pursuant to Rules A-11 or A-12 that, if applicable, accrue during the inactive period. Further, upon returning from active U.S. military service, the dealer or municipal advisor sole proprietor must provide the MSRB notice within 30 calendar days that the sole proprietor has returned to his or her business.<sup>24</sup>

<sup>23</sup> The notice required shall be in the form of a letter to the MSRB on firm letterhead that includes the firm's MSRB ID number, the individual's name (including, if applicable, the individual's CRD number), the start and end dates of the individual's active U.S. military service and the branch of service. Such notice shall be provided to the MSRB electronically at [Compliance@msrb.org](mailto:Compliance@msrb.org).

<sup>24</sup> The notice required shall be in the form of a letter to the MSRB on firm letterhead that includes the firm's MSRB ID number, the individual's name (including, if applicable, the individual's CRD number), the start and end dates of the individual's active military service and the branch of service. Such notice shall be provided to the MSRB electronically at [Compliance@msrb.org](mailto:Compliance@msrb.org).

## Waiting Periods for Retaking a Failed Examination

Rule G-3(g) allows any associated person of a broker, dealer, municipal securities dealer or municipal advisor who fails to pass an MSRB qualification examination to take the examination again after a period of 30 days has elapsed from the date of the prior examination, except that any person who fails to pass an examination three or more times in succession shall be prohibited from taking the examination again until a period of six months has elapsed from the date of such person's last attempt to pass the examination.

FINRA's consolidated rule change consolidated NASD Rule 1070(e) as FINRA Rule 1210.06 to provide that a person who fails a FINRA examination may retake the examination after 30 calendar days from the date of the person's last attempt to pass the examination, except a person who fails an examination three or more times in succession within a two-year period may only retake the examination after 180 calendar days from the date of the person's last attempt to pass the examination. In addition, FINRA Rule 1210.06 extended these provisions to the SIE examination.

Although generally consistent with FINRA's approved rule, to promote regulatory consistency, the MSRB is proposing to amend to Rule G-3(g), on retaking of qualification examinations, to change the term "six months" to "180 calendar days" and to add "within a two-year period" after the phrase "three or more times in succession." The addition of the phrase is intended to clarify the frequency with which FINRA's test delivery system resets a candidate's exam history data.

## Restructuring of the MSRB's Professional Qualification Examination Program

### A. Accepting the SIE Examination and Revising the Municipal Securities Representative Qualification Examination

FINRA's consolidated rule change established the SIE exam to eliminate the duplicative testing of general securities knowledge across its current representative-level qualification examinations by moving such content into the SIE exam.<sup>25</sup> With the establishment of the SIE exam, FINRA restructured its representative-level exams into specialized knowledge examinations to test knowledge of

<sup>25</sup> Individuals do not have to be associated with a FINRA member to take the SIE examination, unlike FINRA's representative-level qualification examinations.

<sup>21</sup> More specifically, FINRA's rule states that the two-year period for lapse of registration of its representative and principal-level qualifications and the four-year expiration for the SIE examination would be tolled for the period the individual is on active service.

<sup>22</sup> The notice required to preserve such deferral shall be in the form of a letter to the MSRB that includes the individual's name (including, if applicable, the individual's CRD number), the start and end dates of the individual's active U.S. military service and the branch of service. Such notice shall be provided to the MSRB electronically at [Compliance@msrb.org](mailto:Compliance@msrb.org).

concepts and rules specifically corresponding to a particular representative-level qualification. FINRA Rule 1210.03, on qualification examinations, provides that before a person can become registered as a representative, such person must pass the SIE exam and an appropriate representative-level qualification examination.

In developing the SIE exam, FINRA established a committee of industry professionals to create the content outline for the SIE exam and invited staff from the MSRB's Professional Qualifications department to participate on the committee.<sup>26</sup> The SIE exam content outline is divided into four sections, with each section addressing the essential areas of general knowledge. The SIE exam will consist of 75 scored multiple-choice questions.<sup>27</sup> Pursuant to FINRA Rule 1210.08, a passing score on the SIE exam would be valid for four years and a person that passes the SIE exam would have up to four years to pass a representative-level qualification examination in order to become registered in a representative-level capacity.

The sections and the associated number of questions for each section are:

- Section 1: Knowledge of Capital Markets (12 questions);
- Section 2: Understanding Products and Their Risks (33 questions);
- Section 3: Understanding Trading, Customer Accounts and Prohibited Activities (23 questions); and
- Section 4: Overview of the Regulatory Framework (7 questions).

Rule G-3(a)(ii), on qualification requirements, provides that "every municipal securities representative shall take and pass the Municipal Securities Representative Qualification Examination prior to being qualified as a municipal securities representative."<sup>28</sup> The Series 52 is designed to establish that persons associated with dealers that effect

transactions in municipal securities have attained specified levels of competence and knowledge to become registered as municipal securities representatives.

The Series 52, in its current format, has general securities knowledge content that will be tested on the future SIE exam. The MSRB, therefore, intends to restructure the Series 52 as a specialized knowledge examination to better focus the content of the examination more specifically to municipal securities knowledge. Accordingly, the MSRB is proposing an amendment to Rule G-3(a)(ii) that would require an individual to pass both the SIE exam and the revised Series 52<sup>29</sup> in order to become qualified as a municipal securities representative.<sup>30</sup> Additionally, the MSRB will continue to recognize, in their revised forms as specialized knowledge examinations, the Municipal Securities Sales Limited Representative Examination (Series 7) and the Limited Representative-Investment Company Variable Contracts Product Representative Examination (Series 6) in furtherance of regulatory consistency and for purposes of avoiding impact to the current distribution channel for the sale of municipal securities.

## 2. Statutory Basis

The MSRB believes that the proposed rule change is consistent with Section 15B(b)(2)(A) of the Act,<sup>31</sup> which provides that the MSRB's rules shall prescribe:

such standards of training, experience, competence, and such other qualifications as the Board finds necessary or appropriate in the public interest or for the protection of investors and municipal entities or obligated persons. In connection with the definition and application of such standards the Board

may . . . specify that all or any portion of such standards shall be applicable to any such class; and require persons in any such class to pass tests . . .

The MSRB believes that, by requiring persons to take and pass a professional qualification examination, such requirement promotes public confidence by ensuring the minimum standards of training, experience and competence required by the Board are being achieved. The MSRB also believes that the restructuring of its current qualification examination program is consistent with and in furtherance of the stated objectives of Section 15B(b)(2)(A) of the Act because by ensuring the Series 52 specialized knowledge examination focuses on the most relevant laws, rules and regulations of the municipal securities market, investors are more well protected. Also, by more closely aligning the Series 52 specialized knowledge examination content to the functions and activities performed by a municipal securities representative, such associated persons are more likely to fully grasp the prescribed regulatory standards, which aides to preserve the integrity of the municipal securities market. Importantly, without compromising the qualification standards, the proposed rule change would improve the efficiency of the examination program by eliminating duplicative testing of general securities knowledge.

Moreover, consistent with Section 15B(b)(2)(A) of the Act, permitting such persons to work at an industry affiliate of a dealer without having to requalify by examination upon re-registering with a dealer, by permitting them to seek a waiver from re-examination, lends itself to a greater understanding of the financial services industry. Further, the proposed rule change would allow individuals to maintain their knowledge base while working in areas ancillary to the municipal securities market, thereby providing such market professionals additional securities knowledge, which, in turn, promotes confidence in market professionals. The proposed rule change would also expand the scope of permissive qualifications, which, among other things, would allow dealers to develop a depth of associated persons with qualifications to respond to unanticipated personnel changes and would encourage a greater understanding of the municipal securities markets. As proposed, by allowing individuals to function in a principal capacity for a limited period of time before having to pass a principal-level examination would

<sup>26</sup> MSRB staff reviewed the SIE content outline and provided substantive comments to ensure relevant MSRB rules were incorporated and content specific to municipal securities was addressed on the outline. FINRA filed the content outline and selection specifications for the new SIE examination with the SEC for immediate effectiveness. See Exchange Act Release No. 82578 (January 24, 2018), 83 FR 4375 (January 30, 2018) (SR-FINRA-2018-002).

<sup>27</sup> The passing score for the SIE exam will be published on FINRA's website prior to the first administration of the examination in October 2018.

<sup>28</sup> An exception to the rule, allows only persons having been duly qualified as a general securities representative by reason of having passed the General Securities Representative Qualification Examination before November 7, 2011 to qualify as a municipal securities representative.

<sup>29</sup> The content outlines for MSRB's qualification examinations serve as a guide to the subject matters tested on each examination. The MSRB's Series 52/53 Subcommittee of the Professional Qualification Advisory Committee has been reviewing the current content covered on the Series 52 examination to determine the revisions that will be necessary to appropriately modify the Series 52 into a specialized knowledge examination. In connection with the filing of this proposed rule change, and in advance of the October 1, 2018 effective date of the proposed rule change, the MSRB anticipates filing with the SEC a revised Series 52 content outline to reflect the modifications to the Series 52 examination and the removal of duplicative content that would appear on the SIE exam.

<sup>30</sup> Since the SIE examination is meant to eliminate duplicative testing of general content across representative-level examinations and thereby, affording the opportunity for representative-level examinations to become more specialized knowledge examinations there is no impact to the Series 51 exam and Series 53 exam that would necessitate restructuring of those principal-level exams.

<sup>31</sup> 15 U.S.C. 78o-4(b)(2)(A).

minimize operational disruptions to a dealer.

Lastly, under the proposed rule change, allowing associated persons that volunteer for or are called into active U.S. military service to be placed in an inactive status allows for regulatory consistency and promotes the public interest.

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

The MSRB 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 proposed rule change reflects the MSRB's belief that its registration requirements should be generally harmonized with FINRA's consolidated rule change for purposes of regulatory efficiency and that such changes do not attach additional burdens on dealers, and as applicable, municipal advisors. In addition, the MSRB's restructuring of its qualification examination program to better align with the functions and associated tasks currently performed by a municipal securities representative makes for a more effective qualification examination.

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

The Board did not solicit comment on the proposed change. Therefore, there are no comments on the proposed rule change received from members, participants or others.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>32</sup> and Rule 19b-4(f)(6) thereunder.<sup>33</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.

### **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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MSRB-2018-04 on the subject line.

#### *Paper Comments*

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

All submissions should refer to File Number SR-MSRB-2018-04. This file number should be included on the subject line if email 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, DC 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 MSRB. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MSRB-2018-04 and should be submitted on or before July 17, 2018.

For the Commission, pursuant to delegated authority.<sup>34</sup>

**Eduardo A. Aleman,**  
*Assistant Secretary.*

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### **SECURITIES AND EXCHANGE COMMISSION**

(Release No. 34-83482; File No. SR-NASDAQ-2018-046)

#### **Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Rule 4702**

June 20, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 8, 2018, The Nasdaq Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. 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**

The Exchange proposes to amend Rule 4702(b)(12)(A) so that Participants can choose to have their Limit On Close Orders rejected if subject to being re-priced when entered between 3:50 p.m. ET and immediately prior to 3:55 p.m. ET.

The text of the proposed rule change is available on the Exchange's website at <http://nasdaq.cchwallstreet.com>, at the principal office of the Exchange, 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 specified in Item IV below. The Exchange has prepared summaries, set

<sup>32</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>33</sup> 17 CFR 240.19b-4(f)(6).

<sup>34</sup> 17 CFR 200.30-3(a)(12).

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

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