



Municipal Fund Securities Limited Principal Qualification Examination (Series 51)

CONTENT OUTLINE



Municipal Fund Securities Limited
Principal Qualification Examination
(Series 51)



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INTRODUCTION

This content outline is intended to help candidates prepare for the Municipal Fund Securities Limited Principal Qualification Examination (Series 51) by providing relevant information about the examination itself and sharing pertinent information about the content areas that are covered. The sample questions that appear on page 14 are similar to the types of multiple-choice questions that will appear in the examination. In addition, government and other self-regulatory organization websites that may be useful in preparing for the examination are provided at the end of the outline.

The questions used in the examination are reviewed and updated on a regular basis and reflect current market practices. Questions that test new rules or amendments will be included in the examination after the effective date of the rule or rule change. Existing questions on rules or portions of rules that have been deleted will be removed from the examination prior to the effective date of the amendment. The Series 51 exam is developed and maintained by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization that establishes rules for municipal securities dealers and municipal advisors.

THE MUNICIPAL FUND SECURITIES LIMITED PRINCIPAL

The municipal fund securities limited principal has primary responsibility for overseeing the municipal fund securities activities of a broker, dealer or municipal securities dealer.¹ In this capacity, a municipal fund securities limited principal manages, directs or supervises one or more of the following activities:

- underwriting of municipal fund securities;
- trading of municipal fund securities;
- selling municipal fund securities to customers;
- communications with customers about any of the above activities;
- maintaining records on the above activities;
- processing, clearing, and (in the case of securities firms) safekeeping of municipal fund securities; and
- training of principals or representatives.

THE EXAMINATION

The Municipal Fund Securities Limited Principal Qualification Examination is designed to determine whether an individual meets the MSRB's qualification standards for municipal fund securities limited principals. To do this, the examination measures a candidate's knowledge of MSRB rules, rule interpretations and federal statutory provisions applicable to the activities listed above. It also measures the candidate's ability to apply these rules and interpretations to given fact situations in the context of municipal fund securities activities. In addition to passing this examination, a candidate must also have previously or concurrently qualified as a general securities principal or investment company/variable contracts limited principal.

¹ The municipal securities principal (Series 53) is also qualified to supervise these responsibilities.

The examination consists of 60 multiple-choice questions assigned to the seven areas of the examination as follows:

Regulatory Structure	5%
Product Knowledge	27%
General Supervision	17%
Fair Practice and Conflicts of Interest	17%
Sales Supervision	18%
Underwriting and Disclosure Obligations	6%
Operations	10%

These questions are further distributed among the various subtopics in a manner that reflects the distribution of subject matter in the content outline. Each question is worth one point, and the passing grade is 70%. Candidates are allowed one and one-half hours to complete the examination. During the administration of the examination, candidates are not allowed to use reference materials.

CONFIDENTIALITY

In order to ensure that its examinations constitute valid tests of the qualifications of persons who take them, the MSRB has instituted various procedures, in the question-writing as well as the administration phases, which are designed to preserve the confidentiality of the examinations. On several occasions, the MSRB has found it necessary to take legal action, alleging copyright violations, against securities training schools which had used in their training material questions and answers that were determined to have been taken from questions contained in MSRB qualification examinations. In addition, candidates are advised that the practice of “debriefing” persons who have taken a qualification examination may not only give rise to an infringement of the MSRB’s copyright but would be a violation of MSRB rules for the candidate.²

² Rule G-3(f) on “Confidentiality of Qualification Examinations” states that:

No associated person of a broker, dealer, municipal securities dealer or municipal advisor shall:

- (i) in the course of taking a qualification examination required by this rule receive or give assistance of any nature;*
- (ii) disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;*
- (iii) engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or*
- (iv) knowingly sign a false certification concerning any such qualification examination.*

PART 1: REGULATORY STRUCTURE (5% OF TEST QUESTIONS)

1.0 Ensure conduct of an ethical municipal securities business.

Understand applicability of antifraud provisions mandated under the Securities Exchange Act of 1934.

Understand provisions for enforcement of MSRB rules.

Understand prohibitions against employment of manipulative and deceptive devices.

Understand provisions of regulations established to ensure investor protection.

1.1 Jurisdiction

1.1.1 Exempted securities '33 Act, Sect. 3(a)(2)

1.1.2 Municipal security '34 Act, Sect. 3(a)(29)

1.1.3 Exemption from Investment Company Act of 1940 '40 Act (ICA), Sect. 2(b)

1.2 MSRB Rulemaking '34 Act, Sect. 15B(b)

1.3 Enforcement of MSRB Rules

1.3.1 Enforcement agencies '34 Act, Sect. 15B(c)(5); Sect. 15A(b)(2); Sect. 3(a)(34)(A)

1.3.2 Compliance examinations '34 Act, Sect. 15B(c)(7)(A)

1.4 Securities Investor Protection Corporation (SIPC) SIPA³ Sect. 5; Sect. 9

1.4.1 Purpose of SIPC

1.4.2 Coverage limitations

1.5 Antifraud

1.5.1 Antifraud provisions applicable to all persons, including municipal issuers, brokers, dealers and municipal securities dealers '34 Act, Sect. 10(b); Sect. 15(c)

1.5.2 Antifraud provisions applicable to brokers, dealers and municipal securities dealers
MSRB Rule G-17

1.5.3 Fraud and misrepresentations by brokers, dealers and municipal securities dealers
'34 Act; SEC Rule 15c1-2

³ Securities Investor Protection Act of 1970—See www.sipc.org for more information.

PART 2: PRODUCT KNOWLEDGE (27% OF TEST QUESTIONS)

2.0 Understand key industry terms.

Demonstrate product knowledge of municipal fund securities.

Understand the differences between municipal fund securities and registered securities.

Understand the differences between municipal fund securities and the underlying investments and the risks associated with both.

Demonstrate knowledge and appropriate uses of alternative higher education savings products.

2.1 Municipal fund securities *MSRB Rule D-12*

2.2 New Products Governed by MSRB Rules

2.3 Product Knowledge

2.3.1 Local Government Investment Pools (LGIP): *Differences in state law; authorization to invest; formation of pool; investment policy of investor; structure of pool; direction of fund purchases and redemptions on behalf of investors; potential tax consequences for investment of bond proceeds; authorized participants; generally no guarantees by state/county; distribution methods*

2.3.2 529 Savings Plans

2.3.2.1 Federal tax law issues: *Established and maintained by a state; contribution limits—excess contributions; limits on investment direction; prohibition on using as security for a loan; rollovers; contributions only in cash; estate and gift tax issues; federal tax-deferred growth; federal tax-free withdrawals for qualified education expenses; taxes and penalties on withdrawals for non-qualified uses; requirements for beneficiary changes; account ownership issues*

2.3.2.2 State tax issues: *Possible deductibility of contributions and recapture on withdrawal or rollover; possible tax-free withdrawals*

2.3.2.3 Other state law issues: *Generally not guaranteed by state; differences in state law (fee structure—resident vs. non-resident; matching contributions)*

2.3.2.4 Issuance and market structure: *State as issuer; primary distributor; selling dealer; method of purchase (direct vs. broker sold); transfer agent*

2.3.3 Education savings alternatives: *Coverdell Education Savings Account (CESA), UTMA, 529 pre-paid tuition plans, savings bonds, etc.*

PART 3: GENERAL SUPERVISION (17% OF TEST QUESTIONS)

3.0 Understand qualification and registration requirements for firms and associated persons conducting a municipal fund securities business.

Understand requirements to implement, monitor and maintain appropriate systems to ensure compliance with MSRB rules.

Understand responsibilities for supervising the sale of municipal fund securities.

3.1 Definitional Rules

3.1.1 "Municipal securities dealer" '34 Act, Sect. 3(a)(30); Sect. 15B(a)

3.1.2 "Bank dealer" MSRB Rule D-8

3.1.3 "Customer" SEC Rule 15c1-1; MSRB Rule D-9; MSRB Rule G-8(e)

3.2 Availability of Board rules MSRB Rule G-29

3.3 Qualification and Registration

3.3.1 Broker/dealer and municipal advisor

3.3.1.1 Registration requirements MSRB Rule A-12(a)

3.3.1.2 Form A-12 updates and withdrawal MSRB Rule A-12(j)

3.3.1.3 Designated contacts MSRB Rule A-12(f)

3.3.1.4 Separately identifiable department or division of a bank (definition of municipal securities dealer activities) MSRB Rule G-1

3.3.1.5 Requirements to have a minimum number of principals MSRB Rule G-3(b)(iii); MSRB Rule G-3(b)(iv)(D); MSRB Rule G-3(e)(ii)

3.3.2 Associated persons

3.3.2.1 Definitions and qualification requirements:

3.3.2.1.1 Municipal securities representative MSRB Rule G-3(a)(i) and (ii)

3.3.2.1.2 Municipal securities principals MSRB Rule G-3(b)(i) and (ii)

3.3.2.1.3 Municipal fund securities limited principals MSRB Rule G-3(b)(iv)(A)-(C)

3.3.2.1.4 Municipal securities sales principals MSRB Rule G-3(c)

3.3.2.1.5 Municipal advisor representatives MSRB Rule G-3(d)

3.3.2.1.6 Municipal advisor principals MSRB Rule G-3(e)

3.4 Supervisory Responsibilities

- 3.4.1 Dealer's obligation to supervise **MSRB Rule G-27(a)**
- 3.4.2 Designation of principals
 - 3.4.2.1 Responsible for municipal securities business and activities of associated persons
MSRB Rule G-27(b)(ii)
 - 3.4.2.2 Written record of designations **MSRB Rule G-27(b)(ii)(A)-(B); MSRB Rule G-8(a)(xiv)**
 - 3.4.2.3 Appropriate principal **MSRB Rule G-27(b)(ii)(C)**
- 3.4.3 Written supervisory procedures⁴
 - 3.4.3.1 Duty to establish and enforce **MSRB Rule G-27(c)(i)**
 - 3.4.3.2 Duty to update and review **MSRB Rule G-27(c)(iii)**
 - 3.4.3.3 Supervisory controls **MSRB Rule G-27(f)**

3.5 Any Recently Enacted Rules and Interpretations Governing General Supervision

⁴ Requirements for SPECIFIC supervisory procedures are found under the appropriate topics (e.g., "Opening Customer Accounts" and "Review of Correspondence" on page 10; "Customer Complaints" on page 10).

PART 4: FAIR PRACTICE AND CONFLICTS OF INTEREST (17% OF TEST QUESTIONS)

4.0 Understand the impact of political contributions on the dealer's ability to sell municipal fund securities.

Ensure fair conduct of municipal fund securities business.

Ensure that appropriate disclosures are made to customers.

4.1 Political contributions and prohibitions on municipal securities business

4.1.1 Definitions **MSRB Rule G-37(g)**

4.1.2 Period of prohibition; *de minimis* exception **MSRB Rule G-37(b)**

4.1.3 Prohibition against solicitations **MSRB Rule G-37(c) and (d)**

4.1.4 Requirements to disclose political contributions and municipal securities business **MSRB Rule G-37(e) and (f)**

4.1.5 Records concerning political contributions **MSRB Rule G-8(a)(xvi)**

4.2 Solicitation of municipal securities business

4.2.1 Definitions **MSRB Rule G-38(b)**

4.2.2 Prohibited payments **MSRB Rule G-38(a)**

4.2.3 Records concerning consultants **MSRB Rule G-8(a)(xviii)**

4.3 Conduct of Business

4.3.1 Conduct of Municipal Securities and Municipal Advisory Activities **MSRB Rule G-17**

4.3.2 Prices and commissions **MSRB Rule G-30(b)**

4.3.3 Control relationships

4.3.3.1 Definition **MSRB Rule G-22(a)**

4.3.3.2 Disclosure to customers **MSRB Rule G-22(c)**

4.3.4 Gifts, gratuities and non-cash compensation **MSRB Rule G-20; MSRB Rule G-8(a)(xvii)**

- 4.3.5 Advertising
- 4.3.5.1 Definition **MSRB Rule G-21(a)(i)**
- 4.3.5.2 Professional advertisements **MSRB Rule G-21(b)**
- 4.3.5.3 Product advertisements **MSRB Rule G-21(c)**
- 4.3.5.4 Approval by a principal **MSRB Rule G-21(f)**
- 4.3.5.5 Municipal fund security advertisements **MSRB Rule G-21(e)**

4.4 Any Recently Enacted Rules and Interpretations Governing Fair Practice and Conflicts of Interest

PART 5: SALES SUPERVISION (18% OF TEST QUESTIONS)

5.0 Understand the review and approval process for opening and maintenance of customer accounts.

Understand requirements for communications with customers.

Understand suitability requirements when recommending investments.

Guard against improper and/or prohibited activities.

Understand rules regarding review, handling and recordkeeping of customer complaints.

5.1 Opening Customer Accounts

5.1.1 Requirement to obtain customer account information **MSRB Rule G-19; MSRB Rule G-8(a)(xi)**

5.1.2 Review and approval by a principal **MSRB Rule G-27(c)(i)(G)(1)**

5.1.3 Transactions with employees and partners of other municipal securities professionals **MSRB Rule G-28**

5.2 Communications with Customers

5.2.1 Review of correspondence **MSRB Rule G-27(e)**

5.3 Suitability

5.3.1 Knowledge of customer **MSRB Rule G-19 [Supp.04, .06]**

5.3.2 Suitability of recommendations **MSRB Rule G-19 [Supp.05]**

5.4 Improper Use of Customer Assets

5.4.1 Quantitative suitability **MSRB Rule G-19 [Supp.05(c)]**

5.4.2 Guarantees against loss **MSRB Rule G-25(b)**

5.4.3 Sharing in profits or losses **MSRB Rule G-25(c)**

5.5 Customer Complaints

5.5.1 Review by a principal **MSRB Rule G-27(c)(i)(B)**

5.5.2 Definition — recordkeeping requirements **MSRB Rule G-8(a)(xii)**

5.5.3 Investor and Municipal Advisory Client Education and Protection **MSRB Rule G-10**

5.6 Any Recently Enacted Rules and Interpretations Governing Sales Supervision

PART 6: UNDERWRITING AND DISCLOSURE OBLIGATIONS (6% OF TEST QUESTIONS)

6.0 Understand supervisory obligations for underwriters, including performance of due diligence.

Understand timeframes associated with disclosure of required information.

Understand the distinction between and responsibilities of primary distributors (underwriters) and selling dealers (selling group members).

6.1 Obligations of Municipal Underwriters

6.1.1 "Reasonable basis" interpretation under SEC Rules **SEC Release No. 34-26100, Part III**

6.1.2 Availability and review of official statements **SEC Rule 15c2-12**

6.1.3 Submission of official statements, advance refunding documents and other required information to EMMA **MSRB Rule G-32(b); MSRB Rule G-8(a)(xv)**

6.2 Disclosures to Customers

6.2.1 Time of trade disclosure **MSRB Rule G-47**

6.2.2 Delivery of official statement to customer and other disclosure requirements **MSRB Rule G-32(a); MSRB Rule G-8(a)(xiii)**

6.2.3 Definitions **MSRB Rule G-32(d)**

6.3 Any Recently Enacted Rules and Interpretations Governing Underwriting and Disclosure Obligations

PART 7: OPERATIONS (10% OF TEST QUESTIONS)

7.0 Understand confirmation and periodic statement requirements.

Understand recordkeeping requirements related to supervision of operations.

7.1 Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers

7.1.1 Customer confirmations **MSRB Rule G-15(a)(i) – (vii)**

7.1.2 Periodic statements **MSRB Rule G-15(a)(viii)(B)(1)**

7.2 Customer Account Transfers **MSRB Rule G-26**

7.3 Books and Records to be Made by Brokers, Dealers, and Municipal Securities Dealers and Advisors

7.3.1 Books and records required to be made⁵

7.3.1.1 Records of original entry **MSRB Rule G-8(a)(i)**

7.3.1.2 Account records **MSRB Rule G-8(a)(ii)**

7.3.1.3 Securities records **MSRB Rule G-8(a)(iii)**

7.3.1.4 Subsidiary records **MSRB Rule G-8(a)(iv)**

7.3.1.5 Records of agency transactions **MSRB Rule G-8(a)(vi)**

7.3.1.6 Copies of confirmations and certain other notices to customers **MSRB Rule G-8(a)(ix)**

7.3.1.7 Manner in which books and records are to be maintained **MSRB Rule G-8(b)**

7.3.1.8 Non-clearing brokers and dealers **MSRB Rule G-8(c)**

7.3.1.9 Introducing brokers and dealers **MSRB Rule G-8(d)**

7.3.1.10 Transactions in municipal fund securities; books and records maintained by transfer agents **MSRB Rule G-8(g)**

7.3.2 Preservation of books and records

7.3.2.1 Period of time records must be preserved **MSRB Rule G-9(a) through G-9(c)**

7.3.2.2 Accessibility and availability **MSRB Rule G-9(d)**

7.3.2.3 Method of record retention **MSRB Rule G-9(e)**

7.3.3 Compliance with recordkeeping rules

7.3.3.1 Records to be made **MSRB Rule G-8(f); SEC Rule 17a-3**

7.3.3.2 Preservation of records **MSRB Rule G-9(g); SEC Rule 17a-4**

7.4 Any Recently Enacted Rules and Interpretations Governing Operations

⁵ Other required books and records are listed under specific topics.

REFERENCES

Listed below are government and self-regulatory organization websites that provide information candidates may find useful in preparing for the exam. In addition to information about rules, the organizations listed may publish glossaries of terms, explanations of products and compliance procedures. Candidates are encouraged to refer to the websites for regulatory notices and interpretive guidance concerning amendments to the rules and announcements of new rules that may relate to the exam. It is recommended that candidates refer to the content outline as part of their preparation to take the exam. Candidates are responsible for planning their course of study in preparation for the exam. The MSRB produces only the content outline and is not involved with, nor does it endorse, any particular course of study.

Board of Governors of the Federal Reserve System (Fed)

<https://www.federalreserve.gov/supervisionreg.htm>

Commodity Futures Trading Commission (CFTC)

<https://cftc.gov/LawRegulation/CommodityExchangeAct/index.htm>

Federal Deposit Insurance Corporation (FDIC)

<https://www.fdic.gov/regulations/>

Financial Industry Regulatory Authority (FINRA)

<http://www.finra.org/industry/rules-and-guidance>

Municipal Securities Rulemaking Board (MSRB)

<http://msrb.org/Rules-and-Interpretations/MSRB-Rules.aspx>

<http://msrb.org/Rules-and-Interpretations/Regulatory-Notices.aspx>

Municipal Securities Rulemaking Board Education on 529 and ABLE Programs

<http://msrb.org/EducationCenter/Municipal-Market/529-Plans.aspx>

Office of the Comptroller of the Currency (OCC)

<https://occ.gov/topics/laws-regulations/index-laws-regulations.html>

Securities and Exchange Commission (SEC)

<https://www.sec.gov/rules.shtml>

Securities Industry / Regulatory Council on Continuing Education (CE Council)

<http://cecouncil.org/>

SAMPLE QUESTIONS

The following questions are similar in format and content to questions on the examination. The sample questions, however, are not intended to parallel either the level of difficulty or the subject coverage of the examination. The sample questions are only intended to assist candidates in preparing for the types of multi-choice questions that will appear on the examination.

1. Which of the following accurately describes how municipal fund securities are regulated?
 - (A) They are not federally regulated.
 - (B) They are subject only to state laws.
 - (C) They are subject to federal anti-fraud regulation.
 - (D) They are subject only to MSRB rules.

2. Under MSRB rules, a dealer must evaluate its written supervisory procedures at least:
 - (A) Annually.
 - (B) Every two years.
 - (C) Every three years.
 - (D) Every six years.

3. Under MSRB rules, which two of the following would be considered material facts that should be disclosed by the dealer to a customer in the recommendation of a 529 savings plan?
 - I. Potential tax benefits of an in-state plan purchase
 - II. Effective yield of the plan
 - III. Total return of the plan
 - IV. Available sales charge discounts
 - (A) I and II
 - (B) I and IV
 - (C) II and III
 - (D) III and IV

4. The responsibilities of a "municipal securities sales limited representative" include which of the following activities?
 - (A) Sales to and purchases from customers of municipal securities
 - (B) Advisory or consultant services for issuers
 - (C) Underwriting, trading or sales of municipal securities
 - (D) Research or investment advice regarding municipal securities

5. A registered representative of a dealer of 529 savings plans recommends State Y's 529 program to a customer who resides in State Y. In making his recommendation, the RR should consider all of the following tax factors EXCEPT:
 - (A) Tax-deferred growth.
 - (B) State income tax deductions may be available for contributions made to the State Y plan.
 - (C) Tax-free withdrawals for qualified education expenses.
 - (D) Federal income tax deductions may be available for contributions made to the State Y plan.

ANSWERS 1. (C) 2. (A) 3. (B) 4. (A) 5. (D)