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Professional  
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**Affected Rules**

[Rule G-3](#)

## MSRB Modifies Professional Qualifications Program

### Overview

On Friday, June 8, 2018, the Municipal Securities Rulemaking Board (MSRB) filed a proposed rule change with the Securities and Exchange Commission (SEC) to modify its professional qualifications program. The amendments to MSRB Rule G-3 reflect the MSRB's intended plan to revise the Municipal Securities Representative Qualification Examination (Series 52) into a specialized knowledge examination and recognize the Financial Industry Regulatory Authority's (FINRA) Securities Industry Essentials (SIE) Examination as a prerequisite for the Series 52 examination. The amendments also harmonize certain MSRB professional qualification requirements, under Rule G-3, with FINRA's approved rules restructuring its professional qualification and registration requirements. The amendments to Rule G-3 were filed for immediate effectiveness with an implementation date of October 1, 2018.

Section 15B(b)(2)(A) of the Securities Exchange Act of 1934 authorizes the MSRB to prescribe standards of training, experience, competence and such other qualifications the MSRB finds necessary or appropriate in the public interest or for the protection of investors and municipal entities or obligated persons.<sup>1</sup> Rule G-3 ensures that associated persons attain and maintain a specific level of knowledge pertinent to their functions. In general, the amendments to Rule G-3, among other things: (i) require the SIE examination as a prerequisite for the Series 52 examination; (ii) restructure the Series 52 examination into a specialized knowledge examination; (iii) provide for permissive qualifications to be made and maintained for associated persons; and (iv) afford relief to individuals from having to requalify by examination by recognizing the financial services affiliates (FSA) waiver program.

Questions about this notice may be directed to Bri Joiner, Manager, Professional Qualifications, at 202-848-1347.



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<sup>1</sup> 15 U.S.C. 78o-4(b)(2)(A).

## Summary of the Amendments

### **Accepting the SIE Examination and Restructuring the Series 52 Examination**

The establishment of the SIE examination by FINRA is meant to eliminate duplicative testing of general securities knowledge across representative-level professional qualification examinations, thereby allowing those representative-level examinations to become more tailored, specialized knowledge examinations. The Series 52 exam 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 exam, in its current format, has general knowledge content that will be tested on the future SIE exam. The MSRB, therefore, intends to restructure the Series 52 exam to reduce redundancies in general knowledge content and have the content of the examination be more specifically tailored to municipal securities knowledge. Accordingly, beginning October 1, 2018, the amendments to Rule G-3(a)(ii) require an individual to pass both the SIE exam and the revised Series 52 exam<sup>2</sup> in order to become qualified as a municipal securities representative.<sup>3</sup> Additionally, the MSRB will continue to recognize, even as revised, the General Securities Representative Qualification Examination (Series 7) for qualification as a municipal securities sales limited representative and the Investment Company/Variable Contracts Products Representative Examination (Series 6) for qualification as an investment company/variable contracts limited representative in furtherance of regulatory consistency.

The MSRB intends to file a revised Series 52 content outline reflecting the restructured content of the examination with the SEC in the coming weeks.

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<sup>2</sup> The content outlines for MSRB's qualification examinations serve as a guide to the subject matters tested on each examination. In connection with the amendments to Rule G-3, and in advance of the October 1, 2018 implementation date of the 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 will appear on the SIE exam.

<sup>3</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 will necessitate restructuring of those principal-level exams.

### **Permissive Qualifications**

The amendments to Rule G-3 adopt Supplementary Material .03 that permits brokers, dealers, and municipal securities dealers (dealers) to permit any associated person at a dealer maintain certain MSRB qualifications. More specifically, any individual associated with a dealer will 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, Supplementary Material .03 makes clear that individuals maintaining permissive qualifications (i.e., those qualifications not required for a person to engage in their day-to-day responsibilities) will be considered registered persons by the MSRB and, to the extent relevant to the person's activities, such persons will be subject to applicable MSRB rules. The MSRB recognizes that allowing dealers to maintain permissive qualifications for associated persons will support a greater regulatory understanding of the municipal securities market by persons currently associated with a dealer but not engaging in activities that require a certain professional qualification, and will further develop the knowledge and skills of qualified persons, related to the municipal securities market, by allowing permissive qualifications specific to the municipal securities business.

### **Financial Services Affiliate – Waiver Program**

The amendments to Rule G-3 also adopt Supplementary Material .04 that allows a municipal securities representative, municipal securities principal and/or a municipal fund securities limited principal<sup>4</sup> to be eligible for a waiver, subject to certain conditions, from having to requalify by examination for such MSRB qualifications. As adopted, the provision is meant to provide such associated persons of a dealer an opportunity to work with a financial services industry affiliate of a dealer to enhance their financial services knowledge without having to requalify by examination. The conditions to be met for purposes of being granted a waiver include:

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 of a dealer;<sup>5</sup>

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<sup>4</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>5</sup> The term "financial services industry affiliate of a dealer" as defined under Supplementary Material .04 of Rule G-3 is "a legal entity that controls, is controlled by or is under common

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 continuing education (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 request for a waiver from having to requalify by examination is made within seven years of the individual's initial designation as an FSA-eligible person.

Rule G-3(h)(i), as amended, also prescribes that associated persons who have met the conditions under Supplementary Material .04 shall be granted an FSA waiver consistent with Rule G-3(h)(i)(A) and (B).

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

The amendments to Rule G-3(b) and (c) extend to 120 calendar days from 90 days the limited time period in which a qualified person can function as a principal without having passed the appropriate principal qualification examination. The amendment is meant to better align such period of time with the current examination enrollment window.<sup>6</sup> Additionally, amendments to Rule G-3(b) and (c) 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

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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>6</sup> An examination enrollment window is the timeframe between a person registering for a professional qualifications examination and taking the examination.

establishing an experience requirement ensures that individuals designated to supervise activities have an appropriate level of experience as a representative before acting in a principal capacity without passing the applicable MSRB principal examination.<sup>7</sup>

### **Continuing Education Program Requirements**

As amended, Rule G-3(i)(i)(B)(2)(b) requires dealers to cover in their continuing education training, ethics and professional responsibility for their covered registered persons.<sup>8</sup> With respect to the Regulatory Element portion of CE, as amended, Rule G-3(i)(i)(A)(2) adopts a provision restricting any compensation for transactions in municipal securities, except for trails, residual commissions, or like compensation resulting from transactions completed before a person's municipal securities registration(s) were deemed inactive for failing to complete the Regulatory Element portion of CE. The rule allows for such compensation, unless the dealer's policy prohibits the payment of trails, residual commissions or like compensation.

### **Registration Status of Armed Forces**

Amendments to Rule G-3 also adopt Supplementary Material .05 to make available an inactive status, thereby tolling the period for lapse of registration<sup>9</sup> for: (i) a current associated person;<sup>10</sup> (ii) a sole proprietor;<sup>11</sup> and

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<sup>7</sup> The 18-months experience requirement does 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.

<sup>8</sup> Under Rule G-3(i)(ii)(A), a "covered registered person" means "any person registered with a broker, dealer or municipal securities dealer and qualified as a representative or principal in accordance with this rule or as a general securities principal and who regularly engages in or supervises municipal securities activities."

<sup>9</sup> The tolling of the two-year period for lapse of registration commences on the date a person begins active U.S. military service.

<sup>10</sup> An individual who is currently associated with a dealer or municipal advisor is eligible to receive transaction-related compensation, including continuing commissions. The employing dealer or municipal advisor of the associated person may also allow another associated person of the dealer or municipal advisor to enter into an arrangement to take over and service client accounts of the inactive associated person and to share transaction-related compensation with the person based on the business generated by the account(s). Importantly, individuals are not required to complete continuing education program requirements during the pendency of a person's inactive status.

<sup>11</sup> A sole proprietor shall be placed on inactive status after proper notification to the registered association with which the dealer is registered or the MSRB with respect to any other dealer or municipal advisor. Additionally, a sole proprietor in an inactive status is not

(iii) a former associated person, if any such person volunteers for or is called to active military service in the Armed Forces of the United States. The inactive status will allow for the person's registration to be tolled during the period of active U.S. military service. For associated persons to avail themselves of the tolling of the lapse of registration, notice must be provided electronically to the MSRB within 30 calendar days, upon the conclusion of active U.S. military service and the person's return to employment with a dealer or municipal advisor, or to his or her municipal securities or municipal advisory business for current associated persons and sole proprietors, respectively.<sup>12</sup> For former associated persons to have their lapse in qualification requirements deferred and the period of time while on active U.S. military service tolled, notice must be provided electronically to the MSRB within 90 calendar days upon the person's completion of active U.S. military service.<sup>13</sup>

### Technical Amendments

The amendment to Rule G-3(g), on retaking of qualification examinations, replaces the term "six months" with "180 calendar days" and adds "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.

June 11, 2018

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required to pay fees assessed under Rule A-11 and Rule A-12, as applicable, that accrue during the period of inactive status.

<sup>12</sup> The notice required shall be in the form of a letter to the MSRB on firm letter head that includes: (i) the firm's MSRB ID number; (ii) the individual's name (including, if applicable, the individual's CRD number); (iii) the state and end dates of the individual's active U.S. military service; and (iv) the branch of service. The notice should be provided to the MSRB electronically at [compliance@msrb.org](mailto:compliance@msrb.org).

<sup>13</sup> The notice required shall be in the form of a letter to the MSRB that includes: (i) the individual's name (including, if applicable, the individual's CRD number); (ii) the state and end dates of the individual's active U.S. military service; and (iii) the branch of service. The notice should be provided to the MSRB electronically at [compliance@msrb.org](mailto:compliance@msrb.org).

## Text of Amendments\*

### Rule G-3. Professional Qualification Requirements

No broker, dealer, municipal securities dealer, municipal advisor or person who is a municipal securities representative, municipal securities sales limited representative, limited representative - investment company and variable contracts products, municipal securities principal, municipal fund securities limited principal, municipal securities sales principal, municipal advisor representative or municipal advisor principal (as hereafter defined) shall be qualified for purposes of Rule G-2 unless such broker, dealer, municipal securities dealer, municipal advisor or person meets the requirements of this rule.

*(a) Municipal Securities Representative, Municipal Securities Sales Limited Representative and Limited Representative - Investment Company and Variable Contracts Products.*

(i) No changes.

(ii) Qualification Requirements.

(A) Except as otherwise provided in this paragraph (a)(ii), any person seeking to become qualified as a ~~every~~ municipal securities representative, in accordance with the requirements under this subparagraph, shall take and pass the Securities Industry Essentials Examination ("SIE") and the Municipal Securities Representative Qualification Examination prior to being qualified as a municipal securities representative. ~~The passing grade shall be determined by the Board.~~

(B) – (C) No changes.

*(b) Municipal Securities Principal; Municipal Fund Securities Limited Principal.*

(i) No changes.

(ii) Qualification Requirements.

(A) – (C) No changes.

(D) For the first ~~90~~ 120 calendar days after becoming a municipal securities principal, the requirements of subparagraph (b)(ii)(A) shall not apply to any person who is qualified as a municipal securities representative or ~~;~~ general securities representative, provided that such qualified representative has at least 18 months of experience functioning as a representative within the five-year period immediately preceding the principal designation, or as a general securities principal *provided, however,* that each such person shall take and pass the Municipal Securities Principal Qualification Examination within that period.

(iii) No changes.

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\* Underlining indicates new language; strikethrough denotes deletions.

## (iv) Municipal Fund Securities Limited Principal.

(A) No changes.

(B) Qualification Requirements.

(1) – (3) No changes.

(4) For the first ~~90~~ 120 calendar days after becoming a municipal fund securities limited principal, the requirements of clauses (b)(iv)(B)(1) and (2) shall not apply to any person who is qualified as a general securities representative, or investment company/variable contracts limited representative, provided that such qualified representative has at least 18 months of experience functioning as a representative within the five-year period immediately preceding the principal designation, or as a general securities principal or investment company/variable contracts limited principal, provided, however, that each such person shall meet the requirements of clauses (b)(iv)(B)(1) and (2) within that period.

(C) – (D) No changes.

## (c) Municipal Securities Sales Principal.

(i) Definition. No changes.

(ii) Qualification Requirements.

(A) – (C) No changes.

(D) For the first ~~90~~ 120 calendar days after becoming a municipal securities sales principal, the requirements of subparagraph (c)(ii)(A) shall not apply to any person who is qualified as a municipal securities representative or , general securities representative, provided that such qualified representative has at least 18 months of experience functioning as a representative within the five-year period immediately preceding the principal designation, or as a general securities principal, provided, however, that each such person shall take and pass the General Securities Sales Supervisory Qualification Examination within that period.

(d) – (f) No changes.

(g) *Retaking of Qualification Examinations.* Any associated person of a broker, dealer, municipal securities dealer or municipal advisor who fails to pass a qualification examination prescribed by the Board shall be permitted 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 within a two-year period shall be prohibited from again taking the examination until a period of ~~six months~~ 180 calendar days has elapsed from the date of such person's last attempt to pass the examination.

(h) *Waiver of Qualification Requirements.*



(i) The requirements of paragraphs (a)(ii), (a)(iii), (b)(ii), (b)(iv)(B) and (c)(ii) may be waived in extraordinary cases for any associated person of a broker, dealer or municipal securities dealer who demonstrates extensive experience in a field closely related to the municipal securities activities of such broker, dealer or municipal securities dealer or as permitted pursuant to Supplementary Material .04 of this rule. Such waiver may be granted by

(A) - (B) No changes.

(ii) No changes.

(i) *Continuing Education Requirements*

(i) *Continuing Education Requirements for Brokers, Dealers, and Municipal Securities Dealers*— This paragraph prescribes requirements regarding the continuing education of certain registered persons subsequent to their initial qualification and registration with a registered securities association with respect to a person associated with a member of such association, or the appropriate regulatory agency as defined in Section 3(a)(34) of the Act with respect to a person associated with any other broker, dealer or municipal securities dealer ("the appropriate enforcement authority"). The requirements shall consist of a Regulatory Element and a Firm Element as set forth below.

(A) *Regulatory Element*

(1) No changes.

(2) *Failure to Complete*—Unless otherwise determined by the Board, any registered persons who have not completed the Regulatory Element within the prescribed time frames will have their registrations deemed inactive until such time as the requirements of the program have been satisfied. Any person whose registration has been deemed inactive under this clause (i)(i)(A)(2) shall cease all activities as a registered person and is prohibited from performing any duties and functioning in any capacity requiring registration. Such person may not receive any compensation for transactions in municipal securities, however, such person may receive trails, residual commissions or like compensation resulting from such transactions completed before the person's inactive status, unless the dealer with which the person is associated has a policy prohibiting such trails, residual commissions or like compensation. A registration that is inactive for a period of two years will be administratively terminated. A person whose registration is so terminated may reactivate the registration only by reapplying for registration and meeting the qualification requirements of the applicable provisions of this rule. The appropriate enforcement authority may, upon application and a showing of good cause, allow for additional time for a registered person to satisfy the program requirements.

(3) – (6) No changes.

(B) *Firm Element*

(1) No changes.

*(2) Standards for the Firm Element*

(a) No changes.

(b) Minimum Standards for Training Programs—Programs used to implement a broker, dealer or municipal securities dealer's training plan must be appropriate for the business of the broker, dealer or municipal securities dealer and, at a minimum must cover training in ethics and professional responsibility and the following matters concerning municipal securities products, services and strategies offered by the broker, dealer or municipal securities dealer:

(i) – (iii) No changes.

(c) No changes.

(3) – (4) No changes.

(ii) No changes.

(A) – (E) No changes.

**Supplementary Material**

**.01 – .02** No changes.

**.03 Permissive Qualification.** A broker, dealer or municipal securities dealer shall be permitted to make application for, or maintain the qualification of, a municipal securities representative, municipal securities principal or municipal fund securities limited principal for any associated person, including persons whose functions are solely clerical or ministerial or engaged in the investment banking or securities business of a foreign securities affiliate or subsidiary. Any person maintaining a permissive qualification shall be considered a “registered person” for purposes of MSRB rules to the extent relevant to their activities.

**.04 Waiver from Regualification by Examination for Individuals Working for a Financial Services Industry Affiliate of a Broker, Dealer or Municipal Securities Dealer.** The requirement to requalify by examination for a lapsed qualification pursuant to subparagraphs (a)(ii)(C), (b)(ii)(C) and (b)(iv)(B)(3) of this rule shall be waived upon request to the proper registered securities association or the appropriate regulatory agency consistent with paragraph (h) of this rule for an individual if the following conditions are satisfied:

(1) An individual must have been registered with a broker, dealer or municipal securities dealer for a total of five years within the most recent 10-year period, including the most recent year with the broker, dealer or municipal securities dealer having designated the individual as eligible for a waiver by having met the requirement of this subparagraph;

(2) The waiver request is made within seven years of the individual’s initial designation.

(3) The individual continuously worked for a financial services industry affiliate(s) of a broker, dealer or municipal securities dealer since terminating association with a broker, dealer or municipal securities dealer;

(4) The individual has completed the Regulatory Element portion of continuing education consistent with the requirements in Rule G-3(i)(i)(A) based on the person's most recent registration status and on the same Regulatory Element cycle had the person remained registered; and

(5) The individual does not have any pending or adverse regulatory matters or terminations and has not otherwise been subject to a statutory disqualification as defined in Section 3(a)(39) of the Exchange Act while the individual was working for a financial services industry affiliate(s) of a broker, dealer or municipal securities dealer.

As used under this Supplementary Material, the term "financial services industry affiliate of a broker, dealer or municipal securities dealer" means any legal entity that controls, is controlled by or is under common control with a broker, dealer or municipal securities 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.

#### **.05 Status of Qualified Persons Serving in the Armed Forces of the United States.**

##### *(a) Inactive Status for Current Associated Persons*

(1) An associated person of a broker, dealer, municipal securities dealer or municipal advisor who volunteers for or is called into active U.S. military service shall be deemed inactive for purposes of qualification for the period that such person is on active U.S. military service. If applicable, such person will not be required to requalify by examination upon such person's return to employment with a broker, dealer, municipal securities dealer or municipal advisor so long as such person returns to employment with a broker, dealer, municipal securities dealer or municipal advisor within 30 calendar days upon the conclusion of such person's active U.S. military service.

(2) An associated person, as identified in subparagraph (a)(1) of this Supplementary Material, shall remain eligible to receive transaction-related compensation, including continuing commissions. The employing broker, dealer, municipal securities dealer or municipal advisor of such associated person may also allow another associated person of the broker, dealer, municipal securities dealer or municipal advisor to enter into an arrangement to take over and service the clients' accounts of such associated person and to share transaction-related compensation based upon the business generated by such accounts with the associated person who is placed on inactive status pursuant to subparagraph (a) of this Supplementary Material.

(3) An associated person who is placed on inactive status pursuant to subparagraph (a) of this Supplementary Material shall not be required to complete continuing education program requirements as set forth in Rule G-3(i) during the pendency of the person's inactive status.

(4) Notice must be provided electronically to the MSRB within 30 calendar days, upon the conclusion of active U.S. military service and such person's return to employment with such broker, dealer, municipal securities dealer or municipal advisor with which the person was associated with during the period of active U.S. military service or employment with another broker, dealer, municipal securities dealer or municipal advisor. The notice required shall be on firm letterhead and include the following information:

(a) Firm's MSRB ID number;

(b) Individual's name;

(c) Individual's CRD number, if applicable;

(d) Start and end dates of the individual's active U.S. military service; and

(e) Branch of service.

(b) Inactive Status for Sole Proprietors

(1) A broker, dealer, municipal securities dealer or municipal advisor that is a sole proprietor who temporarily closes his or her business because of volunteering for or being called into active U.S. military service shall be placed on inactive status after proper notification to the registered securities association with which the broker, dealer, municipal securities dealer or municipal advisor is registered or the Board with respect to any other broker, dealer, municipal securities dealer or municipal advisor. Such sole proprietor will not be required to requalify by examination upon such person's return to his or her municipal securities or municipal advisory business.

(2) A sole proprietor placed on inactive status as set forth in this paragraph (b) shall not be required to pay fees assessed under Rule A-11 and Rule A-12, as applicable, that accrue during such period of inactive status.

(3) Notice must be provided electronically to the MSRB within 30 calendar days, upon the conclusion of active U.S. military service and such person's return from active U.S. military service to his or her municipal securities or municipal advisory business. The notice required shall be on firm letterhead and include the following information:

(a) Firm's MSRB ID number;

(b) Individual's name;

(c) Individual's CRD number, if applicable;

d) Start and end dates of the individual's active U.S. military service; and

(e) Branch of service.

Absent notice to the MSRB, former associated persons of a broker, dealer, municipal securities dealer or municipal advisor will not have such person's lapse in qualification requirements deferred and such person's period of time while on active U.S. military service will not be tolled.

(c) Status for Former Associated Persons

(1) If a person who was formerly associated with a broker, dealer, municipal securities dealer or municipal advisor volunteers for or is called into active U.S. military service at any time within the two-year period after the date such person ceases to be associated with a broker, dealer, municipal securities dealer or municipal advisor, the lapse of such person's representative and principal-level qualifications, pursuant to subparagraphs (a)(ii)(C), (b)(ii)(C) and (b)(iv)(B)(3) of this rule, shall be deferred (i.e., tolling of the two-year expiration period).

(2) The deferral of the lapse in qualification requirements for associated persons of a broker, dealer, municipal securities dealer or municipal advisor would commence on the date the person begins active U.S. military service, provided that notice is provided to the MSRB.

(3) Notice must be provided electronically to the MSRB within 90 calendar days upon such person's completion of active U.S. military service and include the following information:

(a) Individual's name;

(b) Individual's CRD number, if applicable;

(c) Start and end dates of the individual's active U.S. military service; and

(d) Branch of service.

Absent notice to the MSRB, former associated persons of a dealer or municipal advisor will not have such person's lapse in qualification requirements deferred and such person's period of time while on active U.S. military service will not be tolled.