



# STUDY OUTLINE

**MUNICIPAL FUND SECURITIES  
LIMITED PRINCIPAL QUALIFICATION EXAMINATION  
DRAFT  
AUGUST 2011  
SERIES 51**

**Municipal Securities Rulemaking Board**  
1900 Duke Street  
Suite 600  
Alexandria, Virginia 22314-2746  
(703) 797-6600

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# Introduction

## THE STUDY OUTLINE

This study outline serves as a guide to the subject matter tested by the Municipal Fund Securities Limited Principal Qualification Examination (Test Series 51). It lists the topics covered by the examination and provides sample questions similar to the type used in the examination.

The arrangement of the subject matter in the study outline reflects the various aspects of the activities that a broker, dealer or municipal securities dealer may engage in with respect to municipal fund securities<sup>1</sup> and the tasks that a municipal fund securities limited principal would be expected to supervise. Reference is made to the appropriate MSRB rule or federal laws or regulations that govern each task. Not only are questions in the examination based on these federal regulations and MSRB rules, but are also based on the published interpretations of MSRB rules.

## 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.<sup>2</sup> 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;
- rendering of financial advisory or consultant services to issuers of municipal fund securities;

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<sup>1</sup> Rule D-12 defines a municipal fund security as a municipal security issued by an issuer that, but for the application of Section 2(b) of the Investment Company Act of 1940, would constitute an investment company within the meaning of Section 3 of the Investment Company Act.

<sup>2</sup> The municipal securities principal (Series 53) is also qualified to supervise these responsibilities.

- 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.

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 study 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.

The questions used in the examination are reviewed and updated on a regular basis. Questions which test a new rule or a new rule amendment will be included in the examination

after the effective date of the rule or rule change. Existing questions on rules or portions of rules which have been amended or deleted will be removed from the examination prior to the effective date of the amendment.

## **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 appeared 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.<sup>32</sup>

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<sup>2</sup> Rule G-3(e) on “Confidentiality of Qualification Examinations” states that:

No associated person of a broker, dealer, or municipal securities dealer 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 One

## Regulatory Structure (5%)

- *Ensure conduct of an ethical municipal securities business.*
- *Understand applicability of antifraud provisions mandated under the '34 Act.*
- *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.*

### I. Jurisdiction

- |    |   |                             |
|----|---|-----------------------------|
| A. | “Exempted securities”                         | '33 Act<br>Sect. 3(a)(2)    |
| B. | “Municipal security”                          | '34 Act<br>Sect. 3(a)(29)   |
| C. | Exemption from Investment Company Act of 1940 | '40 Act (ICA)<br>Sect. 2(b) |

### II. MSRB Rulemaking

'34 Act  
Sect. 15B(b)

### III. Enforcement of MSRB Rules

- |    |                         |  |
|----|-------------------------|--|
| A. | Enforcement agencies    | '34 Act<br>Sect. 15B(c)(5);<br>Sect. 15A(b)(2);<br>Sect. 3(a)(34)(A) |
| B. | Compliance Examinations | '34 Act<br>Sect. 15B(c)(7)(A)  |

### IV. Securities Investor Protection Corporation (SIPC)

SIPA<sup>1</sup> Sect. 5;  
Sect. 9

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1 Securities Investor Protection Act of 1970—See [www.sipc.org](http://www.sipc.org) for more information.

**Part One-IV:  
Regulatory Structure; Securities Investor Protection Corporation (SIPC)**

- A. Purpose of SIPC
  - B. Coverage limitations
- V. Antifraud
- A. Antifraud provisions applicable to all persons, including municipal issuers, brokers, dealers and municipal securities dealers '34 Act  
Sect. 10(b);  
Sect. 15(c)
  - B. Antifraud provisions applicable to brokers, dealers and municipal securities dealers G-17
  - C. Fraud and misrepresentations by brokers, dealers and municipal securities dealers '34 Act;  
SEC Rule 15c1-2

# Part Two

## Product Knowledge (27%)

- *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.*

I. Municipal fund securities D-12

II. New Products Governed by MSRB Rules

III. Product Knowledge

A. Local Government Investment Pools (LGIP)

1. Differences in state law
2. Authorization to invest
3. Formation of pool
4. Investment policy of investor
5. Structure of pool
6. Direction of fund purchases and redemptions on behalf of investors
7. Potential tax consequences for investment of bond proceeds
8. Authorized participants
9. Generally no guarantees by state/county
10. Distribution methods

B. 529 College Savings Plans

1. Federal tax law issues
  - a. Established and maintained by a state
  - b. Contribution limits—excess contributions
  - c. Limits on investment direction
  - d. Prohibition on using as security for a loan

**Part Two-III-B:  
Product Knowledge; 529 College Savings Plans (cont'd)**

- e. Rollovers
  - f. Contributions only in cash
  - g. Estate and gift tax issues
  - h. Federal tax-deferred growth
  - i. Federal tax-free withdrawals for qualified higher education expenses
  - j. Taxes and penalties on withdrawals for non-qualified uses
  - k. Requirements for beneficiary changes
  - l. Account ownership issues
2. State tax issues
- a. Possible deductibility of contributions and recapture on withdrawal or rollover
  - b. Possible tax-free withdrawals
3. Other state law issues
- a. Generally not guaranteed by state
  - b. Differences in state law (fee structure—resident vs. non-resident; matching contributions)
4. Issuance and market structure
- a. State as issuer
  - b. Primary distributor
  - c. Selling dealer
  - d. Method of purchase (direct vs. broker sold)
  - e. Transfer agent
5. Education savings alternatives (*e.g.*, Coverdell)
- a. Education Savings Account (CESA), UGMA/UTMA, 529 pre-paid tuition plans, savings bonds, etc.

# Part Three

## General Supervision (17%)

- *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.*

### I. Definitional Rules

- |    |                               |  |
|----|-------------------------------|--|
| A. | “Municipal securities dealer” | ’34 Act<br>Sect. 3(a)(30);<br>Sect. 15B(a) |
| B. | “Bank dealer”                 | D-8  |
| C. | “Customer”                    | SEC Rule 15c1-1;<br>D-9; G-8(e)            |

### II. Availability of MSRB rules

G-29

### III. Qualification and Registration

- |    |   |               |
|----|---|---------------|
| A. | Broker/dealer   |               |
| 1. | Registration with the MSRB and<br>payment of initial fee and annual fee | A-12;<br>A-14 |
| 2. | Notification to the MSRB of change<br>in status, name or address        | A-15          |
| 3. | Requirement to submit e-mail contact<br>to MSRB                         | G-40          |

**Part Three-III-A:  
General Supervision; Qualification and Registration (cont'd)**

4. Separately identifiable department or division of a bank (definition of municipal securities dealer activities)	G-1
5. Requirements to have a minimum number of principals	G-3(b)(iii); G-3(b)(iv)(D); G-3(d)(iii)
B. Associated persons	
1. Definitions and qualification requirements:	
a. municipal securities representative	G-3(a)(i) and (ii)
b. municipal securities principals	G-3(b)(i) and (ii)
c. municipal fund securities limited principals	G-3(b)(iv)(A)-(C)
d. municipal securities sales principals	G-3(c)
e. financial and operations principals	G-3(d)(i) and (ii)
2. Apprenticeship requirement	G-3(a)(iii)
3. Restrictions on apprentices	G-3(a)(iii)(A)
IV. Supervisory Responsibilities	
A. Dealer's obligation to supervise	G-27(a)
B. Designation of principals	
1. Responsible for municipal securities business and activities of associated persons	G-27(b)(i)
2. Written record of designations	G-27(b)(ii)(A)-(B); G-8(a)(xiv)
3. Appropriate principal	G-27(b)(ii)(C)

**Part Three-IV-C:  
General Supervision; Supervisory Responsibilities (cont'd)**

- C. Written supervisory procedures<sup>2</sup>
  - 1. Duty to establish and enforce G-27(c)(i)
  - 2. Duty to update and review G-27(c)(iii)
  - 3. Supervisory controls G-27(f)
  
- V. Any Recently Enacted Rules and Interpretations Governing General Supervision

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<sup>2</sup> 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 11).

# Part Four

## Fair Practice and Conflicts of Interest (17%)

- *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.*

### I. Political contributions and prohibitions on municipal securities business

- |    |  |                 |
|----|--|-----------------|
| A. | Definitions  | G-37(g)         |
| B. | Period of prohibition; <i>de minimis</i> exception                                 | G-37(b)         |
| C. | Prohibition against solicitations  | G-37(c) and (d) |
| D. | Requirements to disclose political contributions and municipal securities business | G-37(e) and (f) |
| E. | Records concerning political contributions   | G-8(a)(xvi)     |

### II. Solicitation of municipal securities business

- |    |                                |               |
|----|--------------------------------|---------------|
| A. | Definitions                    | G-38(b)       |
| B. | Prohibited payments            | G-38(a)       |
| C. | Records concerning consultants | G-8(a)(xviii) |

**Part Four-III:  
Fair Practice and Conflicts of Interest; Conduct of Business**

III. Conduct of Business

- |    |   |                       |
|----|---|-----------------------|
| A. | Fair Dealing                                | G-17                  |
| B. | Prices and Commissions                      | G-30(b);<br>G-18      |
| C. | Control Relationships                       |                       |
|    | 1. Definition                               | G-22(a)               |
|    | 2. Disclosure to customers                  | G-22(c)               |
| D. | Gifts, gratuities and non-cash compensation | G-20;<br>G-8(a)(xvii) |
| E. | Advertising                                 |                       |
|    | 1. Definition                               | G-21(a)               |
|    | 2. Professional advertisements              | G-21(b)               |
|    | 3. Product advertisements                   | G-21(c)               |
|    | 4. Approval by a principal                  | G-21(f)               |
|    | 5. Municipal fund security advertisements   | G-21(e)               |

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

# Part Five

## Sales Supervision (18%)

- *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.*

### I. Opening Customer Accounts

- |    |   |                        |
|----|---|------------------------|
| A. | Requirement to obtain customer account information        | G-19(a);<br>G-8(a)(xi) |
| B. | Review and approval by a principal                        | G-27(c)(i)(G)(1)       |
| C. | Transactions with employees and partners of other dealers | G-28                   |

### II. Communications with Customers

- |    |                          |         |
|----|--------------------------|---------|
| A. | Review of correspondence | G-27(e) |
|----|--------------------------|---------|

### III. Suitability

- |    |                                |         |
|----|--------------------------------|---------|
| A. | Knowledge of customer          | G-19(b) |
| B. | Suitability of recommendations | G-19(c) |

**Part Five-IV:  
Sales Supervision; Improper Activities**

- IV. Improper Activities
  - A. Churning G-19(e)
  - B. Guarantees against loss G-25(b)
  - C. Sharing in profits or losses G-25(c)
  
- V. Customer Complaints
  - A. Review by a principal G-27(c)(i)(B)
  - B. Definition – recordkeeping requirements G-8(a)(xii)
  - C. Delivery of MSRB investor brochure G-10
  
- VI. Any Recently Enacted Rules and Interpretations Governing Sales Supervision

# Part Six

## Underwriting and Disclosure Obligations (6%)

- *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).*

### I. Obligations of Municipal Underwriters

- |    |   |   |
|----|---|---|
| A. | “Reasonable basis” interpretation under SEC Rules   | SEC Release<br>No. 34-26100<br>Part III |
|    | Availability and review of official statements  | SEC Rule 15c2-12                        |
| B. | Submission of official statements, advance refunding documents and other required information to EMMA | G-32(b);<br>G-8(a)(xiii)                |

### II. Disclosures to Customers

- |    |  |                          |
|----|--|--------------------------|
| A. | Material disclosures at time of trade  | G-17                     |
| B. | Delivery of official statement to customer and other disclosure requirements | G-32(a);<br>G-8(a)(xiii) |
| C. | Definitions  | G-32(d)                  |

### III. Any Recently Enacted Rules and Interpretations Governing Underwriting and Disclosure Obligations

# Part Seven

## Operations (10%)

- *Understand confirmation and periodic statement requirements.*
  - *Understand recordkeeping requirements related to supervision of operations.*
- 
- I. Confirmation of Transactions
    - A. Customer confirmations G-15(a)(i) – (vii)
    - B. Periodic statements G-15(a)(viii)
  
  - II. Customer Account Transfers G-26
  
  - III. Books and Records
    - A. Books and records required to be made<sup>3</sup>
      - 1. Records of original entry G-8(a)(i)
      - 2. Account records G-8(a)(ii)
      - 3. Securities records G-8(a)(iii)
      - 4. Subsidiary records G-8(a)(iv)
      - 5. Records of agency transactions G-8(a)(vi)
      - 6. Copies of confirmations and certain other notices to customers G-8(a)(ix)
      - 7. Manner in which books and records are to be maintained G-8(b)

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<sup>3</sup> Other required books and records are listed under specific topics.

**Part Seven-III-B:  
Operations; Books and Records (cont'd)**

- |   |                           |
|---|---------------------------|
| 8. Non-clearing brokers and dealers   | G-8(c)                    |
| 9. Introducing brokers and dealers  | G-8(d)                    |
| 10. Transactions in municipal fund securities;<br>books and records maintained by transfer agents | G-8(g)                    |
| B. Preservation of books and records  |                           |
| 1. Period of time records must be preserved   | G-9(a) through<br>G-9(c)  |
| 2. Accessibility and availability   | G-9(d)                    |
| 3. Method of record retention   | G-9(e)                    |
| C. Compliance with recordkeeping rules  |                           |
| 1. Records to be made   | G-8(f);<br>SEC Rule 17a-3 |
| 2. Preservation of records  | G-9(g);<br>SEC Rule 17a-4 |
- IV. Any Recently Enacted Rules and Interpretations Governing Operations

## 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 statements regarding MSRB requirements for advertisements of municipal fund securities are TRUE?
  - I. Advertisements must be approved by a qualified principal prior to first use.
  - II. Advertisements must be submitted to the MSRB prior to first use.
  - III. Records for advertisements must be kept current and maintained in a separate file.
  - IV. Advertisements of municipal fund securities must be approved by the issuer.
  - (A) I and II
  - (B) I and III
  - (C) II and IV
  - (D) III and IV
  
2. Jan Smith, who had been previously employed in the state controller's office, was hired by Broker-Dealer B on March 1 to conduct business in municipal fund securities. Jan passed the municipal securities representative exam on March 30. On what date may Jan begin to conduct municipal fund securities business with customers?
  - (A) March 30
  - (B) April 1
  - (C) May 1
  - (D) June 1
  
3. A customer who is a resident of State A wants to invest in a 529 college savings plan offered by State B. All of the following statements would be appropriate for a representative to make to the customer EXCEPT:
  - (A) "State tax benefits available to you through investing in State A's plan may not be available to you when investing in State B's program."
  - (B) "A 10% penalty is imposed on funds not withdrawn from the plan by the time the beneficiary has attained the age of majority."

- (C) “Investments into the plan are made with after-tax dollars for federal income tax purposes.”
- (D) “Withdrawals are tax-free when made for qualified education expenses.”
4. Jane Smith is hired in a representative capacity by SS Securities to handle investments by school districts in a local government investment pool (“LGIP”) operated by State X. Under MSRB rules, which of the following must Jane supply to a school district in connection with its initial investment in the LGIP?
- (A) The LGIP’s official statement
- (B) The MSRB’s investor brochure
- (C) Evidence of SIPC membership
- (D) SS Securities’ telemarketing policy statement
5. John Doe, a resident of State X and a registered representative employed by VV Securities, exclusively markets interests in municipal fund securities programs operated by States X and Y. John makes a contribution of \$100 to the re-election campaign of Bill Brown, the Public Dog Catcher for State Y. Bill’s sole duty under state law is to catch stray dogs and return them to their rightful owners. No other political contributions were made by any associated person of VV Securities during that calendar quarter. Which of the following statements is true?
- (A) VV Securities must report the contribution on Form G-37 and a record of the contribution must be retained for two years.
- (B) VV Securities must revoke any Form G-37x filed with the MSRB during the previous two years.
- (C) VV Securities is banned from engaging in municipal fund securities business for two years in State Y but not in State X.
- (D) VV Securities need not file Form G-37 for the quarter.

**Answer Key**

- |    |   |    |   |
|----|---|----|---|
| 1. | B | 4. | A |
| 2. | D | 5. | D |
| 3. | B |    |   |