

Test Alert!

5/18/06

series 10

The information included in this release, in addition to your other Kaplan Financial materials, is designed to assist you in preparing for concepts that your exam may include. We urge you to read it carefully and take time to review the sample questions and rationale.

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As always, we strive to provide you with the most current test preparation information. If you have any questions about this or any other Kaplan Financial study material, please call AnswerPhone at 1-800-621-9621, ext. 3598 between the hours of 8 AM and 6 PM CT, Monday through Friday.

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One of the major changes in the Series 10 Study Outline is the reorganization of topics assigned to the various testing areas. For example, the new outline lists 20 questions applicable to municipal securities regulation. The prior outline had 45 questions. However, the number of questions dealing with municipals has not changed. Rather, those MSRB rules which are not materially different from comparable rules of other SROs have been placed in those testing areas. For example, MSRB rules dealing with advertising have been placed in the Study Outline with NYSE and NASD advertising rules in the Sales Supervision section of the outline. Those MSRB rules, such as G-37, which are unique to municipal securities, are placed in the Municipal Securities Regulation section of the outline.

The information below has been updated since the 13th edition of the Dearborn Financial Series 10 License Exam Manual. This information is incorporated in the 1st edition of the Kaplan Financial License Exam Manual

1. **Continuing Education.** Persons who were registered for more than 10 years as of July 1, 1998 and who had no significant disciplinary history were exempt from the Regulatory Element. This exemption has been eliminated.
2. **Regulation SHO.** The SEC requires that, prior to the short sale of any equity security, the firm must locate the securities to be borrowed in order to make delivery on settlement date. This is called the locate requirement.
3. **Annual Compliance Meeting.** Principals and supervisors, including branch office managers, are now required to attend an annual compliance meeting. Prior to this change, only registered representatives were required to attend.
4. **Variable annuities.** The NASD has eliminated the maximum sales charge rules for variable annuities. Sales charges are now subject to a reasonableness standard.
5. **Office Inspections.** Office inspections must be carried out by persons independent from the activities being performed at that location and from the person supervising that office. In addition, if the producing manager is responsible for 20% or more of the revenue of the unit being reviewed, the firm must have heightened supervisory procedures in place to avoid conflicts of interest.
6. **Frequency of Office Inspections.** Branches that supervise one or more locations must, like OSJs, be reviewed annually. Branch locations that do not supervise other locations must be inspected at least once every three years.
7. **Fee-Based Accounts.** Fee-based accounts are those that are charged a fixed monthly or annual fee as an alternative to traditional commission-based charges for brokerage services. They are generally appropriate for customers with a moderate to high level of trading activity. They are not appropriate for customers with a buy-and-hold strategy. NASD and NYSE rules require firms to periodically review all fee-based accounts to determine if they remain appropriate.
8. **Municipal Fund Security Advertising.** In advertising municipal fund securities (e.g., Section 529 plans), firms must state where an Official Statement can be obtained. The advertisement must also state that investing in out-of-state plans could cause investors to lose in-state tax benefits.

9. **NASD Rule 2110.** This amendment to the limit order protection rule further benefits customers. Prior to the amendment, a firm holding a customer order to buy at 31.01 that, as principal, buys at 31.00 could have filled the order at either 31.00 or 31.01. Now, the firm must pass along any price improvement to the customer. In this case, the firm must fill the customer order at 31.00.
10. **Access Equals Delivery.** A final prospectus for a new issue will be deemed to precede or accompany a confirmation if the final prospectus has been filed with the SEC. The final prospectus can be viewed on the SEC's Website. Instead of providing new issue buyers with a printed final prospectus, firms can refer customers to the SEC's Website. This rule does not apply to preliminary prospectuses nor does it apply to mutual funds.

PART II

Changes Since the Kaplan Financial Series 10, 1st Edition

Below is information regarding changes in rules and regulations that have been approved since the Kaplan Financial Series 10, 1st edition was published. These changes will be incorporated in the next edition of the License Exam Manual.

1. **Code of Procedure.** Previously, the maximum fine for a minor rule violation was \$2,500. On March 31, 2006, the maximum fine became \$5,000.
2. **Nasdaq.** The SmallCap tier has been renamed the Nasdaq Capital Market. All of the rules surrounding this tier remain unchanged.

Part III

New Sample Questions

1. The access equals delivery rule applies to
 - A. preliminary prospectuses
 - B. final prospectuses
 - C. mutual fund prospectuses
 - D. all of the above

2. A broker in your office opens up an account for an investment club of which his spouse is a member. Under NASD rule 2790, which of the following statements are TRUE?
 - I. His spouse is a restricted person.
 - II. His spouse is not a restricted person.
 - III. The account may purchase an IPO of common stock.
 - IV. The account may not purchase an IPO of common stock.
 - A. I and III
 - B. I and IV
 - C. II and III
 - D. II and IV

3. Under Regulation SHO, the locate requirement applies to the short sale of
 - A. listed stock
 - B. Nasdaq stock
 - C. Bulletin Board stock
 - D. all of the above

4. The maximum fine for a first-time minor rule violation is
 - A. \$2,500
 - B. \$5,000
 - C. \$7,500
 - D. \$10,000

5. One of your nondiscretionary fee-based accounts shows little activity for the first half of the year. Last year, the account showed a high level of activity. You should
 - A. continue to monitor activity in the account
 - B. determine if a fee-based structure remains appropriate for this customer
 - C. suggest to the customer that a discretionary account might be more appropriate
 - D. place the account on a watch list

Part IV

Answers & Rationale

1. **B** The access equals delivery rule only applies to final prospectuses.
2. **B** A spouse is a restricted person under NASD Rule 2790. Therefore, the account can not be allowed to purchase common stock IPOs.
3. **D** The locate requirement applies to the short sale of any equity security.
4. **B** For a first-time violation, the maximum fine is \$5,000.
5. **B** Fee-based accounts must be reviewed periodically to determine their continued appropriateness.

To submit comments or suggestions, please send an email to errata@kaplan.com.

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