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# Municipal Advisor Principal Qualification Examination (Series 54)

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CONTENT OUTLINE



Municipal Securities Rulemaking Board

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# Municipal Advisor Principal Qualification Examination (Series 54)

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## Introduction

This content outline is intended to help candidates prepare for the Municipal Advisor Principal Qualification Examination (Series 54). This examination is developed and maintained by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization (SRO) that establishes rules for municipal securities dealers and municipal advisors. The outline provides relevant information about the examination itself, as well as pertinent information about the content areas that are covered in the examination. The sample questions in this outline are similar to the types of multiple-choice questions that will appear in the examination. In addition, government and SRO websites that may be useful in preparing for the examination are provided at the end of the outline.

The questions used in the Series 54 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.

## PURPOSE FOR AND DEVELOPMENT OF THE EXAMINATION

The Securities Exchange Act of 1934 requires the MSRB to develop a regulatory framework for municipal advisors, including establishing professional standards of conduct. The Series 54 examination for municipal advisor principals was developed as a part of the fulfillment of that mandate. A municipal advisor principal is a natural person associated with a municipal advisor firm who is qualified as a municipal advisor representative and is directly engaged in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons.

The content areas covered by the examination were determined by a panel of practicing municipal advisor professionals who represented various types of municipal advisors that were nationally diverse. The examination is intended to measure the degree to which candidates have demonstrated knowledge and skills necessary to perform the responsibilities of a municipal advisor principal.

## STRUCTURE OF THE EXAMINATION

The Series 54 examination consists of 100 multiple choice questions that are organized under the following major functions:

Function	Description	Number of Questions
Function 1:	Understanding the Municipal Advisor Regulatory Framework	25
Function 2:	Supervising Municipal Advisory Activities	35
Function 3:	Supervising Municipal Advisor Firm Operations	40

Each candidate receives a unique sample of 100 questions that are drawn from the collection of test questions available for the examination, subject to two constraints—the content covered by the examination and the overall difficulty of the examination is the same for all candidates.

## ADMINISTRATION OF THE EXAMINATION

Consistent with the administration of other securities industry examinations, this 100-question examination is administered at a computer. The examination also includes 10 additional questions, which serve to pretest items to ensure that they meet acceptable measurement standards prior to use in future administrations of the Series 54 examination. These 10 pretest items are randomly distributed throughout the examination and do not count for scoring purposes. Candidates receive a short tutorial providing details of the examination administration prior to initiating the test. Including the 30 minutes permitted for the tutorial, candidates are allowed three and one-half hours to complete the Series 54 examination.

A candidate must select one of the four answer choices that are presented for each question in order to complete the examination. Candidates should remember these relevant points about the examination:

- The exam consists of a total of 110 items (100 scored and 10 unscored);
- Each correct answer of a scored item is worth one point;
- It is to the candidate's advantage to answer each question, even if the candidate is uncertain of the correct response;
- Candidates are given three and one-half hours to complete the examination; and
- Any materials needed to complete the examination will be provided by the test center or within the test itself.

A candidate's score will be equal to the number of questions answered correctly. To establish the passing score for the examination, the MSRB administered a pilot exam based on the content of the final outline. Following a well-established practice known as standard setting, a committee of industry professionals working as municipal advisor principals evaluated the results of the pilot, assessing factors such as content difficulty and industry trends. [The passing score set by the MSRB for the Series 54 examination is \_\_\_%.]

## CONFIDENTIALITY

In order to ensure MSRB examinations constitute valid tests of the qualifications of persons who take them, the MSRB has instituted various procedures, in the question-writing and administrative 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 that 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.<sup>1</sup>

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<sup>1</sup> 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: Understanding the Municipal Advisor Regulatory Framework (25% of Exam Questions)

### TASKS

- Assess application of U.S. Securities and Exchange Commission (SEC) and MSRB rules to firm activities
- Monitor for specified prohibitions related to principal transactions and affiliate transactions
- Assess activities to determine the distinction between municipal advisory activities and non-municipal advisory activities
- Assess rules that apply to municipal advisors in dealing with and interacting with dealers, counterparties and other market participants
- Monitor for changes to the applicable regulatory framework

### KNOWLEDGE REQUIRED

- A. Rules and Regulations
1. Dodd-Frank Wall Street Reform and Consumer Protection Act (Section 975 of Title IX)
  2. SEC Municipal Advisor Registration Rule (Section 15B of the Exchange Act)
    - a. Municipal advice standard resulting in a municipal advisor recommendation (SEC Rule 15Ba1-1(d)(1)(ii) and MSRB Rule G-42(d))
    - b. Municipal advisor registration statutory exclusions:
      - (1) Underwriter engagement exclusion (Section 15Ba1-1(d)(2)(i))
      - (2) Responses to requests for proposals or qualifications (RFP or RFQ) (Section 15Ba1-1(d)(3)(iv))
      - (3) Independent registered municipal advisor (IRMA) exemption (Section 15Ba1-1(d)(3)(vi))
        - (a) Establishing a valid IRMA exemption
        - (b) Potential conflicts as it relates to the firm and individual
    - c. Activities within the scope and outside the scope of serving as an underwriter (SEC Rule 15Ba1-1(d)(2))
    - d. Understanding the difference between municipal entity and obligated person clients and applicable regulatory standards (Section 15B(e)(8); Section 15B(e)(10))
    - e. Understand the definition of solicitation and relationship between third-party solicitors and non-solicitors (Section 15B(e)(4)(A); Section 15B(e)(9))
  3. Anti-Fraud Rule (Section 15B(c)(1))

4. Fair Dealing Rule (MSRB Rule G-17)
- B. Regulators Jurisdiction and Scope of Authority (SEC, MSRB, FINRA, CFTC and bank regulators)
1. Understanding the responsibilities of the regulatory agencies that oversee municipal advisory business (e.g., rulemaking, examination, and enforcement)
  2. Role of the Qualified Independent Representative (QIR) (Section 4s(h) of the Commodity Exchange Act (CEA))

## Part 2: Supervising Municipal Advisory Activities (35% of Exam Questions)

### TASKS

- Establishing written supervisory procedures (WSPs) for municipal advisory activities
- Monitoring business activities to establish compliance with written supervisory policies and procedures
- Monitoring for specified prohibitions related to municipal advisory activities (e.g., political contributions, principal transactions and use of bond proceeds)
- Determination and disclosure of potential conflicts of interest (e.g., prior dealer affiliation, current affiliation with issuers, other roles with or services for clients, ownership of issuer securities and relationships with other entities in similar industries)
- Supervising the client engagement process (e.g., proper documentation and disclosure of conflicts of interest and legal and disciplinary events, compensation arrangements, scope of service and know your client)
- Mitigating the providing of inadvertent advice
- Review and documentation of a recommendation given by a municipal advisor for suitability and compliance with all applicable rules
- Fulfilling fiduciary duty obligations when reviewing recommendations to municipal entity clients and execution of transactions
- Supervising firm's due diligence process for issuer primary offering documents and continuing disclosures
- Assess and determine the appropriate knowledge and expertise required of municipal advisors (*i.e.*, duty of care to municipal entity and obligated person clients)
- Maintain policies and procedures to support firm and regulatory requirements for products recommended and services provided (*i.e.*, securities, non-securities, private placements and bank loans)

### KNOWLEDGE REQUIRED

- A. Activity Related to Associated Persons Engaged in Municipal Advisory Activities
1. Duty owed (*i.e.*, standards of conduct) for the relationship with municipal entities and obligated person clients (Section 15B(c)(1); MSRB Rule G-42(a)(i)-(ii); Supp. Material .01 and .02)
  2. Scope of municipal advisory relationship and limitations on the scope of the engagement (MSRB Rule G-42(c); Supp. Material .04 and .06)
  3. Suitability and "know your client" requirements in managing municipal advisory activities (MSRB Rule G-42(d); Supp. Material .09 and .10; MSRB Rule G-8(h)(iv) and MSRB Rule G-17)



4. Recommendations and Review of Recommendations of Other Parties (MSRB Rule G-42(d) and Supp. Material .01, .09 and .10)
5. Issuer disclosures: initial offering, and continuing disclosures and available exemptions (SEC Rule 15c2-12 and G-42 Supp. Material .01)
6. Prohibition on engaging in underwriting activities (MSRB Rule G-23(d))
7. Prohibitions on principal transactions and exceptions thereto (MSRB Rule G-42(e)(ii); Supp. Material .13 and .14)
8. Other duties of municipal advisors (MSRB Rule G-42 and MSRB Rule G-44)
9. Provision on inadvertent advice (MSRB Rule G-42 Supp. Material .07)

## Part 3: Supervising Municipal Advisor Firm Operations (40% of exam questions)

### TASKS

- Fulfilling requirements to register the municipal advisor with the SEC, MSRB and states
- Education of associated persons and other employees on the application of rules to municipal advisory business (e.g., annual compliance training)
- Fulfilling obligations to identify and provide information regarding each associated person of the municipal advisor engaged in municipal advisory activities
- Requirements for maintaining registration (e.g., fees)
- Submit updates to registration information and annual affirmation to regulatory authorities
- Ensure municipal advisor professionals are properly qualified to engage in municipal advisory services, including proper registrations and licenses
- Maintain general business records and other records in compliance with SEC and MSRB rules
- Implement policies to document client complaints
- Oversee quarterly submission of political contributions and other information
- Monitor for adherence with MSRB rule on gifts, gratuities and entertainment
- Review municipal advisor advertisements for compliance with applicable rules
- Ensure firm activities comply with fair dealing obligations

### KNOWLEDGE REQUIRED

- A. Firm Activity
1. Books and records to be made and maintained (SEC Rule 15Ba1-8; MSRB Rule G-8(h) and MSRB Rule G-9(h)-(k))
  2. Annual updates, withdrawals and registration fee (MSRB Rule A-12(a)-(d) and (j)-(l))
  3. Firm filings and updating of designated contacts for the firm (MSRB Rule A-12)
  4. Initial filing and amendments to Form MA (SEC Rule 15Ba1-2 and SEC Rule 15Ba1-5)
  5. Fair dealing requirement (MSRB Rule G-17)
  6. Municipal advisory client brochure (MSRB Rule G-10)
  7. Monitoring gifts, gratuities and normal business dealings (MSRB Rule G-20)
  8. Surveillance of political contribution and required filings (MSRB Rule G-37(b)-(f))
  9. Supervisory and compliance obligations of municipal advisors (MSRB Rule G-44)

- B. Registration and Professional Qualification Standards
  - 1. Amendments to Form MA-I (SEC Rule 15Ba1-5)
  - 2. Professional fee (MSRB Rule A-11)
  - 3. Qualification examination fees (MSRB Rule A-16)
  - 4. Defined terms: associated persons, municipal advisory activities and appropriate regulatory agency (MSRB Rules D-11, D-13, and D-14)
  - 5. Standards of Professional Qualifications (MSRB Rule G-2)
  - 6. Qualification requirements and continuing education requirements (MSRB Rule G-3(d)-(e) and (i)(ii))

## References

Listed below are government and SRO websites that provide information that candidates may find useful in preparing for the Series 54 examination. On the MSRB and SEC websites, candidates will find information about applicable rules, as well as regulatory notices and interpretive guidance concerning amendments to the rules and announcements of new rules that may relate to the examination. The other organizations listed may publish glossaries of terms, explanations of products and other resources on their websites. It is recommended that candidates refer to the content outline as part of their preparation for the exam. Candidates are responsible for planning their course of study in preparation for the exam—the MSRB produces the content outline but is not involved with, nor endorses, any particular test services vendor or course of study.

Municipal Securities Rulemaking Board (MSRB)

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

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

MSRB Municipal Market Education for Professionals (MuniEdPro®)

<http://msrb.org/Regulated-Entities/MuniEdPro.aspx>

U.S. Securities and Exchange Commission (SEC)

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

U.S. Securities and Exchange Commission (SEC) – Office of Municipal Securities

<https://www.sec.gov/municipal>

<https://www.sec.gov/info/municipal/mun-advisors-faqs.shtml>

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

<http://cecouncil.org/>

Board of Governors of the Federal Reserve System (Fed)

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

Federal Deposit Insurance Corporation (FDIC)

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

Financial Industry Regulatory Authority (FINRA)

<http://www.finra.org/industry/guidance>

Office of the Comptroller of the Currency (OCC)

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

U.S. Commodity Futures Trading Commission (CFTC)

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

## Sample Questions

1. A municipal advisor principal is advising its firm on policies relating to gifts and gratuities, non-cash compensation and expenses of issuance. Which of the following statements in such a policy would be compliant with MSRB rules?
  - I. When working with a municipal client, entertainment expenses (such as dinners or tickets to sports and theater events) can be included as reimbursable expenses from the bond proceeds
  - II. Reasonable and customary bereavement gifts are excluded from calculations when determining the aggregate amount of gifts given to a particular client
  - III. When determining the value of a gift, the tax and delivery charges should be included
  - IV. For the purpose of determining the value of an event ticket, the lower of the face value or purchase price can be used

(A) I and III  
(B) I and IV  
(C) II and III  
(D) II and IV
2. A municipal advisor representative wishes to distribute a letter to 50 existing clients and asks the supervisory principal if the letter requires approval prior to distribution. What should the municipal advisor principal advise the representative regarding the distribution of the letter?
  - (A) Since the letter is to be sent to existing clients, no approval is necessary
  - (B) The letter requires approval since it is being broadly distributed
  - (C) So long as there is no call to action in the letter approval is not required
  - (D) Approval is required only if a description of a firm service is included in the summary
3. In order to comply with MSRB rules on supervision of municipal advisory activities, which two of the following are required?
  - I. Designating a chief compliance officer
  - II. Providing an annual disclosure to advisory clients
  - III. Adopting a code of ethics
  - IV. Reviewing supervisory policies annually

(A) I and III  
(B) I and IV  
(C) II and III  
(D) II and IV
4. A municipal advisor firm owns a registered investment advisor firm. The registered investment advisor firm invests 401(K) funds for individual investors. Under MRSB rules and assuming there are no other potential conflicts, what action must the municipal advisor firm undertake having ownership of the registered investment advisor firm when marketing to potential municipal entity clients?
  - (A) Disclose the relationship in writing immediately to each potential municipal entity client
  - (B) Secure a written disclaimer from the potential municipal entity client acknowledging the relationship
  - (C) Inform the potential municipal entity client verbally of the relationship
  - (D) Provide a written statement to each potential municipal entity client that there are no known conflicts of interest

5. A municipal advisor representative informs his supervisor that he has received an email from a prospective client asking him to participate in a call and advise on pricing strategy. Which of the following is the most appropriate action for the supervisor to ensure compliance with MSRB conflicts of interest disclosure rules?
- (A) Advise the representative to proceed with the call and if hired, send the conflicts of interest disclosure document
  - (B) Request that the representative send the conflicts of interest disclosure document only if required by the client's procurement practice
  - (C) Require that a municipal advisory engagement letter is signed prior to the call
  - (D) Require that the representative send the conflicts of interest disclosure document prior to the call

ANSWERS: 1. (D) 2. (B) 3. (B) 4. (D) 5. (D)



DIVISION OF  
MARKET REGULATION

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

July 24, 2000

Ms. Diane G. Klinke  
General Counsel of the Board  
Municipal Securities Rulemaking Board  
1150 18th Street, N.W.  
Suite 400  
Washington, D.C. 20036

Re: Procedure for Filings Relating to Qualification Examinations

Dear Ms. Klinke: *Diane*

I am writing to inform you of a change in the filing requirements for proposed rule changes involving qualification examinations for associated persons. In the past, the Division required the SROs to file question banks for new examinations for Commission approval pursuant to Section 19(b)(2) of the Exchange Act. The Division also required SROs to file questions being added to the question bank for Commission approval.

The Division has decided that it is no longer necessary for SROs to file new exam question banks for Commission approval under Section 19(b)(2). In the future, any new examinations should be filed as non-controversial rule changes for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Exchange Act and Rule 19b-4(f)(6) thereunder. As you know, Rule 19b-4(f)(6) requires the SRO to give notice to the Commission of its intent to file a proposed rule change five days before doing so. During the five days prior to filing, the Division will determine if the proposed rule change is appropriately filed as non-controversial. To assist us in our analysis, please include a complete description of the examination in your rule filing. For example, the proposed rule change should address who will be required to take the exam, what information the exam will cover, the time allotted for each section, the weight assigned to each topic, the effective date of the exam requirement, and any other information that would be helpful to us in determining whether the proposal should become effective on filing. Also, pursuant to Rule 19b-4(f)(6), the rule change should be designated as effecting a change that does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition and, by its terms, does not become operative for 30 days after the date of the filing.

Diane G. Klinke

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Filings to modify an existing examination should be submitted as "constituting a stated policy, practice, or interpretation with respect to the meaning, administration or enforcement of an existing rule..." pursuant to Section 19(b)(3)(A) of the Exchange Act.

Our goal in changing these procedures is to expedite the effectiveness of proposed rule changes involving examination requirements for persons associated with SRO members. Please contact Kathy England, Assistant Director, at 202-942-0154, or Karl Varner, Special Counsel, at 202-942-7125, if you have any questions.

Sincerely,



Belinda Blaine  
Associate Director