



Series 57 Supplement Study Materials

This guide provides additional insight and guidance on the concepts and topics tested on the Series 57 examination. These materials are NOT A SUBSTITUTE for an in-depth reading and re-reading of the textbook.

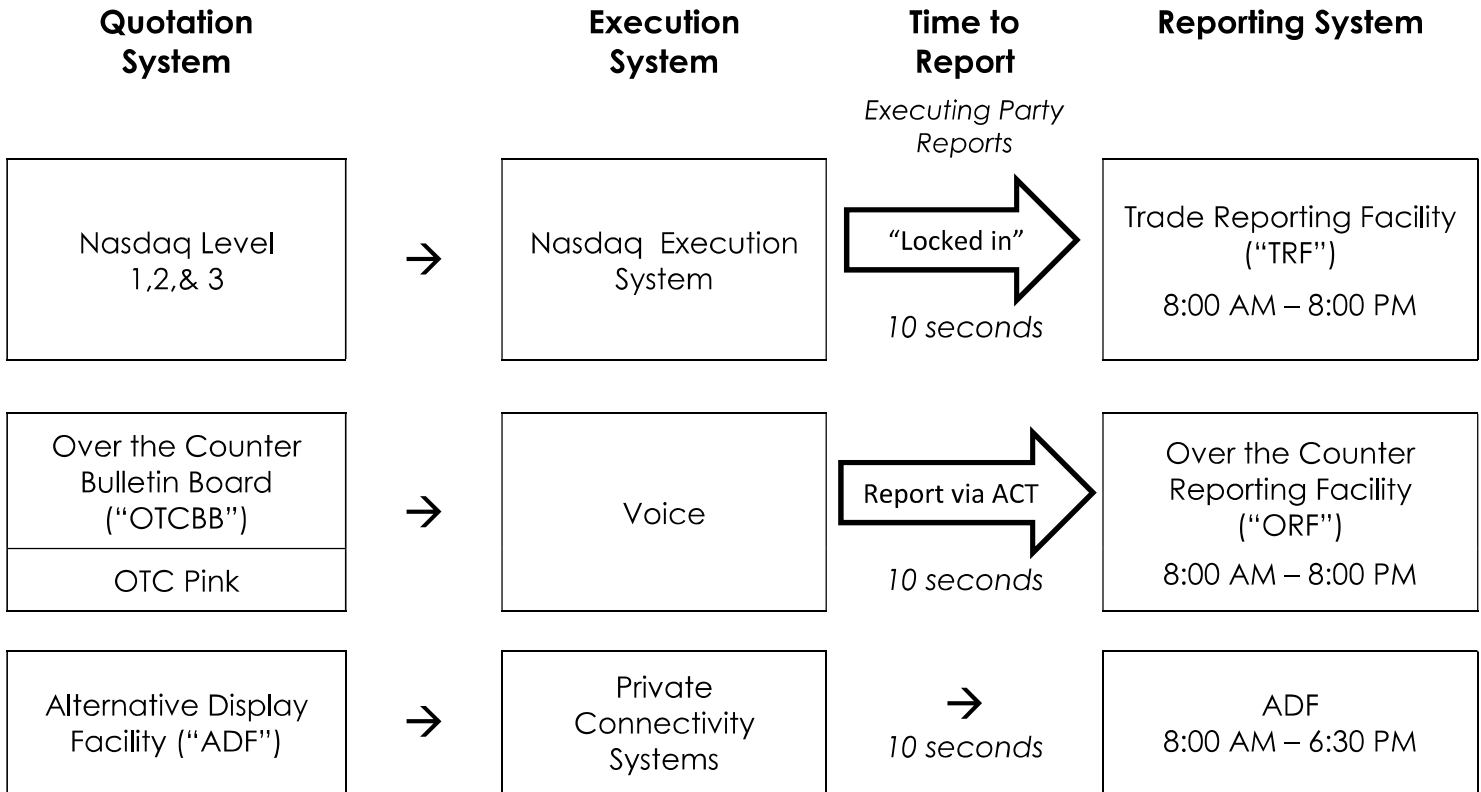
Good luck on your exam.

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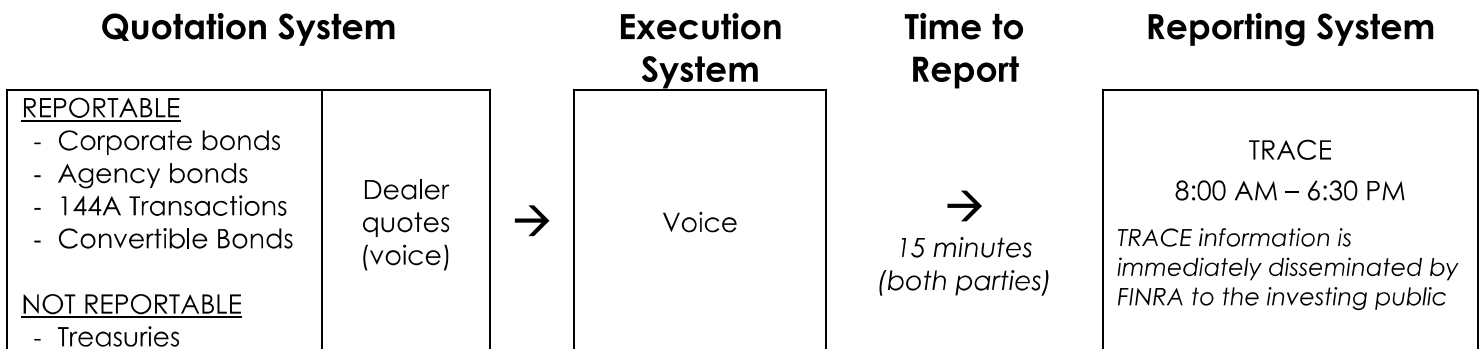
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Market Quotation, Execution, & Reporting Systems

Equity (Stocks)

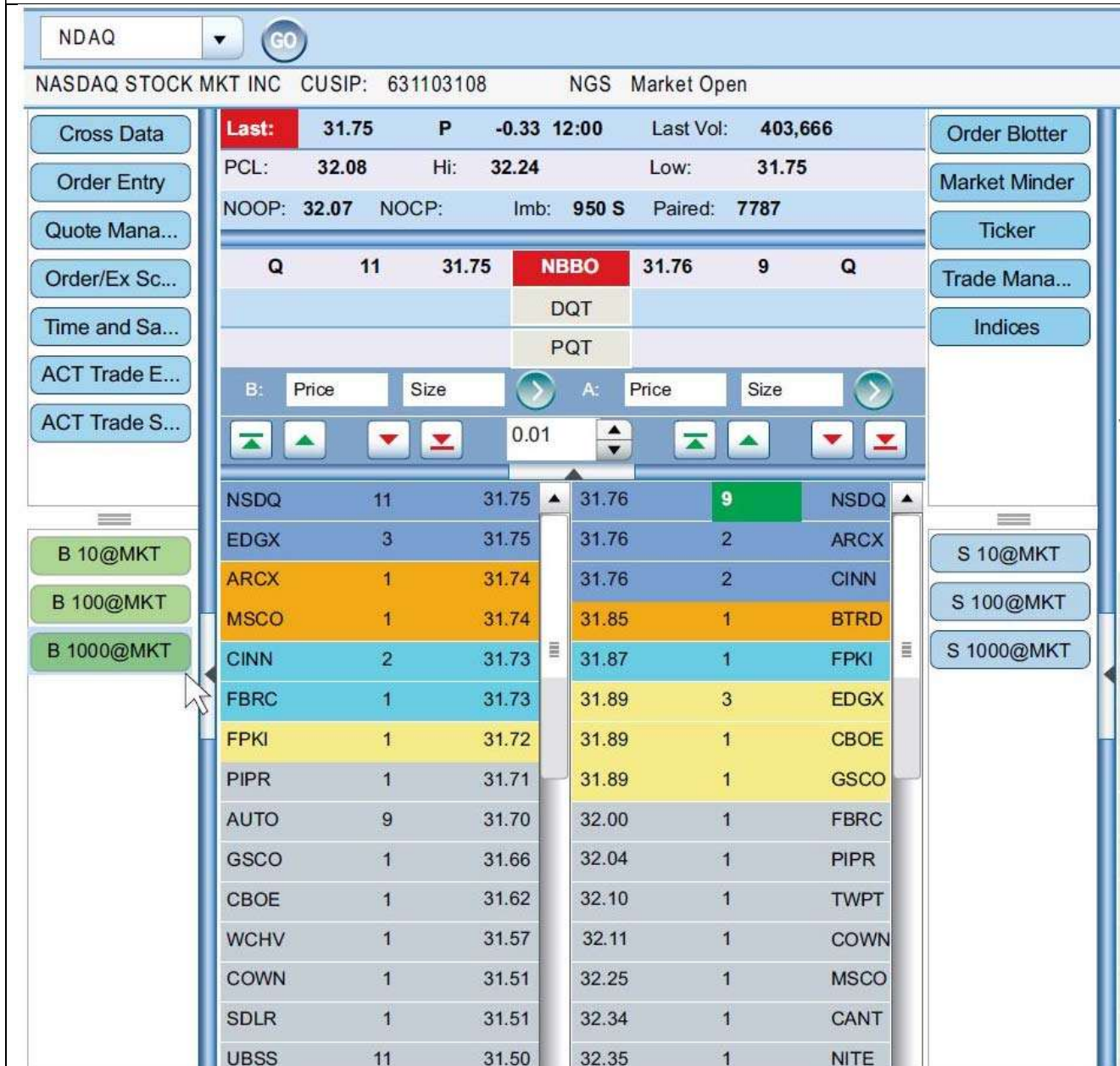


Fixed Income (Bonds)



NASDAQ Trading & Reporting Services

Nasdaq Level 3 Service Screen Shot



Level 3 Quote for NASDAQ OMX Group, Inc. (illustrative)

KEY

NBBO: National Best Bid and Offer
 NOOP: NASDAQ Official Opening Price
 NOCP: NASDAQ Official Closing Price

Nasdaq TotalView Screen Shot

Last Match 14.16 15:37:59.501		Current stock: IDSA Today's Activity Orders 6,457 Volume 73,126	
Bid Price	Total Depth	Ask Price	Total Depth
14.10	1300	14.15	500
14.08	100	14.16	400
14.06	1500	14.19	300
14.05	1250	14.20	700
14.04	1500	14.21	400
BUY ORDERS			SELL ORDERS
MPID	SHARES	BID	ASK SHARES MPID
NSDQ	900	14.10	14.15 200 TMBR
BCAP	100	14.10	14.15 200 NSDQ
WEDB	100	14.10	14.15 100 WEDB
CIBC	100	14.10	14.16 200 CIBC
JPMS	100	14.10	14.16 200 MSCO
MSCO	100	14.08	14.19 300 SBSH
CDRG	750	14.06	14.20 700 FBCO
GSCO	750	14.06	14.21 300 HDSN
TMBR	500	14.05	14.21 100 SUSQ
UBSS	750	14.05	14.23 100 MLCO
NITE	750	14.04	14.23 100 UBSS
SUSQ	750	14.04	14.25 750 BCAP
MLCO	250	14.03	14.25 200 JPMS
GSCO	400	14.01	14.30 100 NITE
ALLN	250	14.01	

Note the 5 levels of depth displayed

Nasdaq Total View of
Industrial Services of America, Inc. [Nasdaq: IDSA]
(illustrative)

Nasdaq Level 2 Service Screen Shot

Last Match		Current stock:		IDSA	
14.16		Today's Activity			
15:37:59.501		Orders		6,457	
		Volume		73,126	
BUY ORDERS			SELL ORDERS		
MPID	SHARES	BID	ASK	SHARES	MPID
NSDQ	900	14.10	14.15	200	TMBR
BCAP	100	14.10	14.15	200	NSDQ
WEDB	100	14.10	14.15	100	WEDB
CIBC	100	14.10	14.16	200	CIBC
JPMS	100	14.10	14.16	200	MSCO
MSCO	100	14.08	14.19	300	SBSH
CDRG	750	14.06	14.20	700	FBCO
GSCO	750	14.06	14.21	300	HDSN
TMBR	500	14.05	14.21	100	SUSQ

Level 2 quote for Industrial Services of America, Inc. (IDSA)
(Illustrative)

Nasdaq Level 1 Service Screen Shot

Last Match		Current stock: IDSA	
14.16		Today's Activity	
15:37:59.501		Orders	6,457
		Volume	73,126
BUY ORDERS		SELL ORDERS	
SHARES	BID	ASK	SHARES
1300	14.10	14.15	500

Level 1 quote for Industrial Services of America, Inc. (IDSA)
(Illustrative)

ACT Screen Shot

ACT Workstation

LIVE HELP

I'm Online

Live

Welcome: nqrb0100 - M

ACT

ACES

Compliance

Risk Management

Misc. Scans

Time & Sales

News & Data

Historical Data

Help

Trade Entry

Summary Scan

Trade Scan

Trade Management

InterACT

File Upload

Reject Scan

Trade Entry

Status: User settings loaded.

Role:

☒ Executing Party (MM)
 ☐ Contra Party (OE)

Side:

Sell

Share Quantity:

Security:

Price:

Contra Party:

Trade Time:

Short Sale:

None

☐ As-Of
 ☐ Reversal
 ☐ Trade Thru Exempt

NQRB Info:

Capacity:

Principal

Give up:

Branch Seq#:

Clearing #:

Contra Info:

Capacity:

None

Give up:

Branch Seq#:

Clearing #:

Clearing & Reporting:

☒ Neither
 ☒ Clear
 ☐ AGU
 ☒ Report
 ☐ QSR
 ☒ Risk

Trade Ref#:

Intended Market:

☐ NASDAQ
 ☒ OTC

Related Market:

NADQ

Contract

Price Override

Fee

Clearing Price:

\$ 0.00

Special Instructions:

☐ Special
 ☐ Step Out
 ☐ NDQ Step Out
 ☐ NDQ Sales Fee

Settlement: (Level 1)

☒ Standard 3-Day
 ☐ Same Day - Cash
 ☐ Next Day
 ☐ Other

Memo:

Trade Modifiers

Level 2:

Level 3:

Level 4:

Send

Unlock

Save Settings

Load Settings

Restore Default

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Nasdaq Opening and Closing Cross

<u>Opening Process</u>	
<u>Nasdaq</u>	
Dissemination of Order Imbalance	9:28 AM - 9:30 AM (every five seconds)
Entry of - Market on Open (MOO), or - Limit on open (LOO) orders	4:00 AM - 9:28 AM
Cancellation of: - Market on open (MOO), or - Limit on open (LOO) orders	4:00 AM - 9:28 AM
Entry of: - Imbalance only (IO) orders	4:00 AM - 9:29:59 AM
Cancellation or Modification of IO orders	4:00 AM - 9:28 AM <i>After 9:28 AM can only be modified to increase order size</i>

<u>Closing Process</u>	
<u>Nasdaq</u>	
Dissemination of Order Imbalance	3:50 PM – 4:00 PM (every 5 seconds)
Entry of - Market on close (MOC), or - Limit on close (LOC) orders	4:00 AM - 3:50 PM (LOC orders permitted until 3:55 PM)
Cancellation of: - Market on close (MOC), or - Limit on close (LOC) orders	4:00 AM - 3:50 PM - <i>Cancel MOC and LOC from 3:50 PM - 3:55 PM only for legitimate order entry error</i>
Entry of: - Imbalance only (IO) orders	4:00 AM - 3:59:59 PM
Cancellation or Modification of IO orders	4:00 AM - 3:50 PM - <i>From 3:50 PM - 3:55 PM cancel for legitimate order entry error</i> - <i>After 3:50 PM modifications to increase order size</i>

Fails to Deliver

RULE	SCENARIO	CONSEQUENCE	NOTE
<u>Rules That Apply For Fails To Deliver At A Registered Clearing Agency</u>			
SEC Rule 204 (short fails)	A member of <i>National Securities Clearing Corporation</i> ("NSCC") (i.e. a clearing firm) has a short fail to deliver (i.e. a seller does NOT own the sold shares and plans to borrow them to make delivery on settlement).	NSCC clearing firms must close out (buy-in) the short fail to deliver before trading begins on T+3.	Example: A NSCC clearing firm that accepts a short sell order must deliver the securities to the buyer on settlement (T+2). If the short seller has not delivered the securities on T+2 the clearing firm must buy-in the securities to make delivery before trading begins on T+3.
SEC Rule 204 (long fails)	A member of NSCC (i.e. a clearing firm) has a long fail to deliver (i.e. the seller owns the shares sold).	NSCC clearing firms must close out (buy-in) the fail to deliver before trading begins on T+5.	An exception in SEC Rule 204 provides for the additional two days for failed long sales. Example: An NSCC clearing firm that accepts a long sell order must deliver the securities to the buyer on settlement (T+2), if the long seller has not delivered the securities on T+2 the failing firm must make close out the position and make delivery on T+5.
<u>Rules That Apply For Fails To Deliver Between Two Firms (I.E. Ex-Clearing)</u>			
FINRA Uniform Practice Code Rule 11810 "Buy-in"	A customer (that is not a clearing firm) fails to deliver securities sold in accordance with a securities contract (an agreement to sell).	The buying party, who did not receive the securities, can buy the securities as soon as 3 days after the failed settlement, and must provide notice to the failing seller by noon, 2 business days before.	The buyer can buy-in the seller on T+5 as long as notice is provided by noon on T+3.
FINRA Uniform Practice Code Rule 11820 Failures To Receive Payment "Sell-out"	A customer places an order to buy securities but does not have the funds to purchase the securities on settlement.	The selling party, who was not paid for the securities, can sell the securities elsewhere on T+3, and must provide notice to the failing buyer on the day of the sell-out by 6 PM that day.	A buyer who fails to pay for securities on settlement, does not get any additional time to pay, and the seller can sell the securities immediately in the market on T+3.
<u>Other Fail Rules & Scenarios</u>			
<p>Threshold Security: Any equity security with a substantial number of fails to deliver over a five day period.</p> <p>A fail to deliver in a threshold security that has existed for thirteen consecutive settlement days must be closed out immediately thereafter (i.e. on the 14th day).</p> <p>- NOTE: Reg SHO's thirteen consecutive settlement days was not affected by the T+2 settlement cycle.</p>			
Under SEC 15c3-3(m), a customer who sells securities but does not deliver within 10 business days after settlement (T+2) must be immediately bought in by the broker dealer.			

Types of Transactions

Proceeds Transactions

	Defined	Agency or Principal Fees	Example & Notes
Proceeds Transactions	<p>A transaction in which a customer sells securities and uses the proceeds to purchase other securities at or about the same time.</p> <p>FINRA's 5% policy applies to proceeds transactions.</p>	<p>Firms can execute proceeds transactions as 1) principal (mark-up/mark-down), or 2) agent (commission)</p> <p>FEES:</p> <p>To apply the 5% policy to a proceeds transaction, add the compensation earned on the sale (markdown or commission) <i>plus</i> any compensation earned on the purchase (markup or commission) and compare this against the inside market on the buy side (the second leg).</p>	<p>Customer sells 100 shares of ABC at \$50 per share and pays a \$35.00 commission. Customer instructs the firm to take the proceeds and buy 100 shares of XYZ at \$40 per share and pays another \$35.00 commission.</p> <p>The fee is calculated: = total fees/purchase price = \$70 / \$4000 = 1.75%</p> <p>Because the \$70 was less than 5% of the purchase price, these fees do not violate the 5% policy.</p>

Net Transaction

	Defined	Agency or Principal Fees	Example & Notes
Net Transactions (FINRA rule 2124)	<p>A "net" transaction is a principal transaction where:</p> <p>1) A market maker, receives an order to buy (or sell) an equity security,</p> <p>2) Purchases (or sells) the security at one price, and then,</p> <p>3) sells to (or buys from) the customer at a different price.</p>	<p>Principal</p> <p>FEES: Markup</p> <p><u>Required Disclosures</u></p> <p><i>Retail customers:</i> must give written consent on an order-by-order basis prior to executing the transaction</p> <p><i>Institutional customers:</i> must give consent prior to the transaction by:</p> <p>1) use of a negative consent letter;</p> <p>2) oral disclosure and consent on an order-by order basis; or</p> <p>3) written consent on an order-by-order basis.</p>	<p>Customer places buy order for 100 shares ABC. The market maker purchases 100 shares from another market maker for \$65 per share. Market maker then sells the securities to the customer at \$65.50 net.</p> <p>The net transaction customer's price per share is \$65.50, but the trade is reported as \$65.00.</p> <p>Markup/markdowns are not included when reporting net transactions to the trade reporting facilities.</p> <p><i>Distinguish from riskless principal trade with a mark-up:</i> The disclosures, or lack of disclosure, of fees is what distinguishes a net transaction (no fee disclosure) from a riskless simultaneous transaction (disclosure of fees). "Net" orders result in executions which exclude disclosed markups, markdowns, commission equivalents, or other fees; the reported price includes any imputed fees charged.</p>

Riskless Principal Transaction

	Defined	Agency or Principal Fees	Example & Notes
Riskless Principal Transaction AKA Riskless Transaction Simultaneous Transaction	A transaction where a firm receives an order to buy (sell) a security, purchases (sells) the security as principal and satisfies the original order by selling (buying) as principal at the same price (the offsetting, "riskless" leg) to a customer.	Agency. While the firm takes momentary ownership of the shares riskless principal transactions are treated as agency trades for regulatory purposes (the only reason the firm purchased the security was to fill the customer's order). FEES: Markup/markdown or commission	Customer places an order to buy 100 shares of XYZ. The firm buys 100 shares from a market maker at \$25.00 and then sells the shares at \$25.00 plus a \$0.40 markup per share. Report to the trade reporting facilities as 100 shares at \$25.00. The trade confirmation includes the \$25.00 price plus the separate disclosure of the \$0.40 per share mark-up as required pursuant to SEC Rule 10b-10.

Agency & Principal Cross Transactions

	Defined	Agency or Principal Fees	Example & Notes
Agency Cross (Investment Advisors)	Firm (Investment Adviser) acts as agent for both buyer and seller	Agency FEES: Commissions (both customers pay a commission)	Market maker buys 100 shares for a customer at \$25.00 (including a \$36.00 commission) and simultaneously sells 100 shares for a customer at \$25.00 (including a \$36.00 commission). This is reported as 100 shares at \$25.00. Each customer paid \$36 in commissions; the firm earned a total of \$72 for executing the two trades.
Principal Cross (Investment Advisors)	Firm acts as principal against both buyer and seller	Principal FEES: Markup or Markdown	Market maker buys 100 shares from a customer at \$25.50 net (including a \$0.50 markdown) and simultaneously sells 100 shares to a customer at \$26.50 (including a \$0.50 markup). This is reported as 100 shares at \$26.00.