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New Series 7, 10th Edition – Revised Study Material.... Arriving January 2017!

Hello Series 7 students! Kaplan is pleased to announce that the latest edition of our Series 7 study material is arriving for the New Year. Release anticipated on or about January 6, 2017.

This includes updates to the License Exam Manual, Class Notes book, SecuritiesPro Qbank, Practice and Mastery Exams and Quick Sheets. OnDemand and Live OnDemand class video selections have been recorded anew for all segments impacted by our content updates. In keeping with our commitment to bring you the freshest testable material in a timely fashion we're proud to bring our newest edition to you.

The 10th Edition - Revised will keep our Kaplan students in good testing form until FINRA's implementation of the new Securities Industry Essentials and Top – off Exams format expected to occur in early 2018.

Upon release, all of our Kaplan Series 7 students can view the new License Exam Manual PDF and Class Notes PDF, 10th Edition – Revised by opening the links under the "Prepare" heading on your Dashboard.

As always, you should continue to check the **Exam-tips & Content Updates** link for entries that impact testable content on an ongoing basis. Remember that our securities industry is an extremely dynamic one. This link, along with the **Corrections** link is where we will keep you abreast of rule additions, deletions and amendments that we suspect might be testable in your series 7 licensing exam.

Highlighting the new revised edition:

- A number of examples have been added to the License Exam Manual in keeping with our best instructional design guidance.

- Numerous questions within the SecuritiesPro Qbank, Practice and Mastery exams have been added or rewritten to reflect current FINRA content testing trends and new "angles of attack" as well as to conform better to FINRA question format styles.

Additionally, to assist with your study focus, below is a list estimating the number of questions you should expect to see from each of the Kaplan Series 7 content units when you sit for your licensing exam. This information is also presented on the first page of each unit within the License Exam Manual:

License Exam Manual Unit	**Approx. # of questions**
UNIT 1 – Equity Securities	10 - 15
UNIT 2 – Debt Securities	15 - 25
UNIT 3 – Municipal Securities	30 - 40
UNIT 4 – Options	25 - 30
UNIT 5 – Customer Accounts	15 - 25
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The most significant content changes for the 10th Edition - Revised, License Exam Manual are listed below. Minor typographical edits not impacting testable content and those edits made to enhance the Glossary are omitted here.

UNIT 1 – Equity Securities

1.7.2 **Characteristics of Warrrants** (content enhancement)

A **warrant** is a certificate granting its owner the right to purchase securities from the issuer at a specified price (normally higher than the current market price) as of the date of issue of the warrant. Warrants represent the right to purchase shares but in and of themselves do not represent ownership. Therefore warrant holders do not have voting rights like shareholders do until they exercise the warrants and become shareholders. Unlike a right, a warrant is usually a long-term instrument, giving the investor the choice of buying shares at a later date at the exercise price.

1.8.1.3 **Currency Risk** (insert TAKE NOTE)

TAKENOTE Dividends are declared in the foreign currency but are payable in U.S. dollars lending to currency risk.

UNIT 2 – Debt Securities

2.4 **The Trust Indenture** (rule amendment to reflect $50 million)

The **Trust Indenture Act of 1939** requires corporate bond issues of $50 million or more sold interstate to be issued under a trust indenture, a legal contract between the bond issuer and a trustee representing bondholders. Although the face of a bond certificate mentions the trust indenture, it is not automatically supplied to bondholders.

The trust indenture specifies the issuer's obligation and bondholders' rights, and it identifies the trustee.

2.11.1.1 **Trace Reporting and Compliance Engine (TRACE)** (rule amendment to reflect TRACE-eligible securities and exclusions)

While most corporate debt securities, asset backed securities (ABS) and collateralized mortgage obligations (CMOs) are TRACE-eligible, there are exclusions. The following is a list of exclusions to know:

- US Treasury securities
- Debt of foreign governments
- Money market instruments
- Debt securities that are not Depository Trust eligible

UNIT 3 – Municipal Securities

NOTE – No significant content edits for Unit 3

UNIT 4 – Options

4.1.4.4 **Intrinsic Value: Call** (insert EXAMPLE)

EXAMPLE XYZ 30 Call with XYZ stock trading at 35
Intrinsic value (IV) of call = 5 (stock price 35 – strike price 30 = 5 IV)

4.1.4.5 **Intrinsic Value: Put** (insert EXAMPLE)

EXAMPLE XYZ 40 Put with XYZ stock trading at 35
Intrinsic value (IV) of put = 5 (strike price 40 – stock price 35 = 5 IV)

4.6.1.2 **Expiration** (rule amendment)

Listed options (equity, index, interest rate and currency) expire on the third Friday of the expiration month at 11:59 pm. Final trades may be made until 4:00 pm on the final day of trading (expiration).

4.7 **Tax Rules for Options** (content enhancement)

Because options are capital assets, capital gains tax rules apply. The tax consequences will vary depending on how an existing position is handled.

There are three ways to handle an existing (open) option position. An open position can expire, be closed in the open market, or it can be exercised by the party who is long the contract.

UNIT 5 – Customer Accounts

5.1.3.1 **Cash Accounts** (insert TEST TOPIC ALERT)

TEST TOPIC ALERT When opening a cash account the only signature required is that of the principal accepting the account. Neither the registered representative nor the customer are required to sign the new account agreement. By contrast, if the account to be opened is a margin account the customer's signature is required on the margin agreement.

UNIT 6 – Margin Accounts

NOTE – No significant content edits for Unit 6

UNIT 7 – Issuing Securities

7.5.3.2 **Mini-Max** (content enhancement)

A mini-max offering is a best efforts underwriting setting a floor or minimum, which is the least amount the issuer needs to raise in order to move forward with the underwriting, and a ceiling or maximum on the dollar amount of securities the issuer is willing to sell. (See License Exam Manual PDF for full text)

7.6.2.1 **Regulation A+: Small and Medium Offerings** (rule amendment to reflect the replacement of Regulation A with Regulation A+)

With the passage of the JOBs Act a capital formation scheme was called for that would further ease the requirements for small and medium sized companies to raise capital. Previously known as Regulation A, the new rule is Regulation A+.

Regulation A+ provides two offering tiers for small and medium size companies that will allow them to raise capital in amounts substantially more than the $5 million previously allowed under Regulation A.

- Tier 1 - Securities offerings up to $20 million in a 12-month period will be allowed. Of the $20 million no more than $6 million can be sold on behalf of existing selling shareholders. The offering would be subject to a coordinated review by individual states and the SEC.
- Tier 2 - Securities offerings up to $50 million in a 12-month period will be allowed. Of the $50 million no more than $15 million can be sold on behalf of existing selling shareholders. These offerings are subject to SEC review only and none at the state level. Tier 2 offerings are still subject to rigorous disclosure requirements to the SEC including audited financial statements, annual, semi-annual and current reports.

Offerings under both tiers are open to the public and general solicitation is permitted for both tiers as well. However, Tier 2 investors must be "qualified" investors and there are two ways to qualify:

1). Be an accredited investor as defined in Rule 501 of Regulation D, or

2). Limit the investment to a maximum of the greater of 10% of their net worth or 10% of their net income per offering. Note that self-certification for Tier 2 as to net worth and income is all that is required with no burdensome filings. Tier 1 has no investment limits.

Finally, remembering that the new Regulation A+ is intended for small and medium sized companies, the regulation specifically excludes investment companies (i.e. private equity funds, venture capital funds and hedge funds).

In a Regulation A+ offering, the issuer files an abbreviated notice of sale, or offering circular, with the regional SEC office. Investors are provided with this offering circular rather than a full prospectus.

The cooling-off period is 20 days between the filing date and effective date, and the issuer need not provide audited financial information. Individuals buying securities in a Regulation A+ offering must receive a final offering circular at least 48 hours before confirmation of sale.

UNIT 8 – Trading Securities

8.2.1.3 Third Market (OTC Listed) (rule amendment)

The **third market**, or **Nasdaq Intermarket,** is a trading market in which exchange-listed securities are traded in the OTC market. Broker/dealers registered as OTC **market makers** in listed securities can do transactions in the third-market. All securities listed on the NYSE and most securities listed on the regional exchanges are eligible for OTC trading as long as the trades are reported to the **Consolidated Tape** within 10 seconds of execution.

8.2.2.2 OTC Markets (content enhancement)

OTC markets also have criteria that a company must meet to be traded on a particular OTC venue just as exchanges do. While historically these criteria were not as stringent as those imposed by the exchanges, over time the quality of issues traded OTC closed the gap and today equal exchange traded issues.

8.3.4 Volatile Market Conditions (insert TAKE NOTE)

TAKE NOTE During a market halt, while no trading can occur investors can still cancel existing (open) orders that had been entered previously.

8.4.1.1.1 Supplemental Liquidity Providers (rule amendment)

Under the multi-dealer market maker structure, an off-floor market maker, known as a Supplemental Liquidity Provider (SLP), may operate and compete with the on-floor Designated Market Maker. The SLP must maintain a bid or an offer in an assigned stock at least 10% of the trading day, unlike a DMM who is required to maintain a two-sided market at all times. Like the DMM, the SLP will receive rebates from the exchange for the SLP's quotes that result in trades, but the rebates are not as large as those received by the DMMs. Finally, SLPs will trade only for their proprietary accounts, not for public customers or on an agency basis.

8.4.3.9 Do Not Ship (DNS) (insert TAKE NOTE)

Exchanges can limit the order types they will accept. For instance, the NYSE does not accept GTC or Stop orders (Stop loss or Stop limit) or all-or-none (AON) or fill-or-kill (FOK) orders to be entered in its equity market. Because these different order types are also used in the bond market and NASDAQ, students should still be familiar with them and be able to distinguish them from other order types. Additionally, though an exchange might not accept them, a broker dealer is still able to do so if they wish to, but would need to manually monitor the status of the order if entered on an exchange that does not accept them.

8.11.2.1 Market Maker Reports (rule amendment)

10-Second Reporting. Market maker transactions must be reported within 10 seconds after a trade's execution.

UNIT 9 – Brokerage Support Services

NOTE – No significant content edits for Unit 9

UNIT 10 – Investment Company Products

10.3.1 Board of Directors (insert TAKE NOTE)

TAKE NOTE Investment Company board members must serve terms that are no less than one year but not longer than five years.

10.5 Characteristics of Mutual Funds and Mutual Fund Concept (enhanced TEST TOPIC ALERT)

TEST TOPIC ALERT

CHARACTERISTICS:

- A professional investment adviser manages the portfolio for investors.

-Mutual funds provide diversification by investing in many different companies.

- A custodian holds a mutual fund's shares to ensure safekeeping.

- An investor may liquidate a portion of his holdings without disturbing the portfolios' balance or diversification.

- An investor retains voting rights similar to those extended to common stockholders, such as the right to vote for changes in the board of directors, approval of the investment adviser, changes in the fund's investment objective, changes in sales charges, and liquidation of the fund.

- Tax liabilities for an investor are simplified because each year the fund distributes a 1099 form explaining taxability of distributions.

FEATURES OFFERED:

- Most funds allow a minimum investment, often $500 or less, to open an account, and they allow additional investment for as little as $25.

- Many funds offer automatic reinvestment of capital gains and dividend distributions without a sales charge.

- An investment company may allow investments at reduced sales charges by offering breakpoints—for example, through larger deposits, a letter of intent, or rights of accumulation.

- A fund may offer various withdrawal plans that allow different payment methods at redemption.

- Funds may offer reinstatement provisions that allow investors that withdraw funds to reinvest up to the amount withdrawn within 30 days with no new sales charge. This provision must be disclosed in the prospectus and is available one time only.

10.8.1.3 Capital Gains Distributions (content enhancement)

The appreciation or depreciation of portfolio securities is an **unrealized capital gain or loss.** If the fund does not sell the securities shareholders experience no tax consequences. When the fund sells the securities, the gain or loss is **realized** and affects shareholder taxes. Distributions of these realized gains to shareholders are taxable.

If the fund has held the securities for more than one year, the gain is a **long-term capital gain**, taxed as determined by the IRS tax code. A long-term capital gains distribution may not be made more often than once per year.

A **short-term gain** is identified, distributed, and taxed at ordinary income tax rates.

UNIT 11 – Retirement Plans

11.2.5.2 Section 529 Plans (content enhancement)

Other relevant points regarding Section 529 plans are as follows.

- Overall contribution levels vary from state to state.
- Assets in the account remain under the donor's control even after the student becomes of legal age.
- There are no income limitations on making contributions to a 529 plan.
- Plans allow for monthly payments if desired by the account owner.
- Account balances may be transferred to a related beneficiary.
- A rollover from one state's plan to another state's plan is permitted no more than once every twelve months.

UNIT 12 – Variable Annuities

12.3.2.1 Life Income (text enhancement and insert TEST TOPIC ALERT)

If an annuitant selects the **life income (life-only annuity)** option, the insurance company will pay the annuitant for life. When the annuitant dies, there are no continuing payments to a beneficiary.

TEST TOPIC ALERTGenerally this option will give the annuitant the largest monthly payment because all calculations are based on the payments ceasing upon the annuitants death.

UNIT 13 – Direct Participation Programs

NOTE – No significant content edits for Unit 13

UNIT 14 – Economics and Analysis

14.1.1.3.1 **Leading Indicators** (insert EXAMPLE)

EXAMPLE Trends in the stock market, up or down, indicate investor confidence in the economy. These upward or downward trends tend to tell us where the economy is heading; a leading indicator.

14.1.1.3.2 **Coincident Indicators** (insert EXAMPLE)

EXAMPLE Personal income or current job salaries indicate what consumers have to spend at that moment in time. These numbers tell us where the economy currently stands; a coincident indicator.

14.1.1.3.3 **Lagging Indicators** (insert EXAMPLE)

EXAMPLE The numbers corporations report showing profits or losses generally come at least one quarter after the actual occurrence. These numbers tell us where the company stood at that time; a lagging indicator.

UNIT 15 – Ethics, Recommendations, and Taxation

15.1.2.5 **Paying for Referrals** (insert EXAMPLE)

EXAMPLE A registered representative offers an attorney and an accountant two tickets to a professional sporting event each time one of them refers one of their clients to him. These tickets would be considered non-cash compensation and giving them in exchange for referrals would be prohibited.

15.1.3.1 **Excessive Trading (Churning)** (insert EXAMPLE)

EXAMPLE A principal while reviewing transactions done by the firm notices that a client who had previously done a trade or two per quarter recently has been doing one or two per week. At a minimum this should generate a red flag for churning. A discussion with the registered representative assigned to the account should occur to determine if any further monitoring or actions should take place.

15.1.3.7 **Guarantees and Sharing in Customer Accounts** (insert EXAMPLES)

EXAMPLES

- A registered representative sets up a joint account for herself and her spouse – PERMITTED
- A registered representative sets up a joint account for herself and a client contributing half of the account proceeds. The account is approved by the firm – PERMITTED

- A registered representative sets up a joint account for herself and a client contributing her knowledge of the markets and securities they intend to buy and sell in the account – NOT PERMITTED

15.1.4.2 **Marking the Close** (insert EXAMPLE)

EXAMPLE A firms' proprietary trader is compensated by salary and bonuses based on profits in the firm's trading account each quarter. On the last day of trading in March (the fiscal quarter end) he enters numerous small buy orders at 3:55 pm ET in securities the account already holds long positions in. This could be an attempt to mark the close; push prices of these securities up one or two ticks just before the close of the day and thus the quarter, inflating the paper profits the account will show for end of quarter for the purpose of securing a larger bonus. Marking the close is a prohibited activity.

15.3.3.1 **Alpha and Beta** (enhanced section to include Alpha)

Alpha is a measure of performance that adjusts for risk, relative to a known benchmark. The alpha for any investment type, a particular asset or portfolio is the abnormal rate of return on the investment in relation to what would normally be predicted by the benchmark. For example, if the normal rate of return for a portfolio was estimated or predicted by a pricing model to be 10%, but the portfolio actually had returns of 12%, it's alpha would be 2 (2% being the excess of 12% over the predicted 10%.

Alpha can also be negative as would be the case for underperforming assets. So where a positive alpha of 1 indicates the asset has outperformed its benchmark by 1%, a negative alpha of 1 indicates that the asset has underperformed its benchmark by 1%

15.5.1 **Regressive Taxes** (insert EXAMPLE)

EXAMPLE Income does not determine the amount of sales tax paid to purchase a computer. Each person purchasing the computer will pay the same percentage state sales tax in that state. As a regressive tax, sales taxes impact lower income individuals more than those with higher incomes.

15.5.2 **Progressive Taxes** (insert EXAMPLE)

EXAMPLE Two individuals earning different salaries in the same state will pay different amounts of income tax depending on their salaries. As a progressive tax income taxes impact those with higher incomes more than those with lower incomes.

UNIT 16 – US Government and State Rules and Regulations

16.1.3 **Trust Indenture Act of 1939** (rule amendment)

The **Trust Indenture Act of 1939** applies to corporate bonds (nonexempt) with the following characteristics:

- Issue size of more than $50 million within 12 months
- Maturity of nine months or more
- Offered interstate

16.1.5 **The Investment Advisers Act of 1940** (insert EXAMPLE)

EXAMPLE A registered representative who is registered under the Securities Act of 1934 and has been charging commissions for transactions now wants to charge separately for investment advice regardless of whether a transaction takes place or not. In order to do so, even though already registered under the ACT of 1934, the RR would now need to register under the Investment Advisors Act of 1940 by passing the appropriate exam (Series 65 or 66).

16.1.6.1 **Membership and Assessments** (content enhancement)

Though SIPC is an independent, government-sponsored corporation, it is not a government agency. SIPC collects annual assessments from broker/dealers. These assessments create a general insurance fund for customer claims resulting from broker/dealer failure.

16.1.8.2 **Tippers and Tippees** (insert EXAMPLE)

EXAMPLE A building custodian finds papers in a waste paper basket indicating that the company is about to launch a takeover of another company within 30 days. The information is marked "release date not yet determined". He tells his spouse and his best friend. His best friend passes on the information to his brother, sister and two neighbors. Within a week, some, but not all of these persons have called their broker dealers to put in buy orders for shares of the target company. Under the ACT of 1988 who if any one of these individuals is liable? All parties are liable under the Act of 1988. The definition of insider essentially is anyone who has or passes on information not yet known to the public.

16.1.8.3 **Written Supervisory Procedures** (insert EXAMPLE)

EXAMPLE Most firms establish procedures ensuring that information from their mergers and acquisitions department is not able to flow to their proprietary trading or retail trading departments. This ensures that the firm’s own proprietary traders or the firm’s retail customers would not know any merger or acquisition information until it is made public.

UNIT 17 – Other SEC and SRO Rules and Regulations

17.3.2.3 **Selection of Arbitrators** (rule amendment)

FINRA maintains a list of arbitrators divided into two categories: nonpublic and public.

Non-public arbitrators are as follows:

· Any person who worked in the financial industry for any duration during their careers including persons associated with a mutual fund or a hedge fund, and persons associated with an investment adviser will always be classified as non-public arbitrators.

· Any financial industry professional who regularly represents or provides services to investor parties in disputes concerning investment accounts or transactions including attorneys, accountants, or other professionals whose firms earned significant revenue from representing individual and/or institutional investors relating to securities matters. However, for these individuals, waiting five years (cooling-off period) after ending the affiliation based on their own activities, or two years after ending an affiliation based on someone else's activities reclassifies and allows them to serve as public arbitrators.

TAKE NOTE There is no cooling-off period for anyone who has worked in the financial industry.

Public arbitrators
· Any persons who do not meet the definition of non-public arbitrator may serve as a public arbitrator.

17.5.4.4 **Ambiguous References** (insert TEST TOPIC ALERT)

TEST TOPIC ALERT Regarding a FINRA members' website, there is no requirement to list or mention the FINRA membership. However, a hyperlink to BrokerCheck is required on all FINRA member websites.

In conclusion we'd like to remind students that the above are abbreviated versions of the text. The full text should be read in the Series 7, 10th Edition - Revised License Exam Manual PDF available to you online. And, as always, for changes that occur in between printed editions, this link; Exam-tips & Content Updates found on your Dashboard under the heading IMPORTANT INFORMATION – CHECK REGULARLY is where we will keep you abreast of any and all changes we would want you to be aware of before testing.

Study well!