

Series 63 Supplement
For NASAA Study Outline effective January 1, 2010
For use with RegEd Series 63 Study Guides purchased before January 2010

Effective January 1, 2010, the NASAA Study Outline for the Series 63 Uniform Securities Agent State Law Examination will change to reflect changes in the securities industry.

On a positive note, according to NASAA there are no new topics being added to the exam; the changes are to the weighting of existing topics and to the passing score. The emphasis on registration of persons (BDs, Agents, IAs and IARs) has increased significantly, and the emphasis on securities themselves has been correspondingly reduced. Below is a comparison of old and new outlines:

Series 63 Through 12/31/09			Series 63 As of 1/1/10		
Topic	Number of Questions	% of exam	Topic	Number of Questions	% of exam
Registration of Persons	18	30%	Registration of Persons	24	40%
Securities	15	25%	Securities	6	10%
Business Practices	21	35%	Business Practices	24	40%
Administration of the USA	6	10%	Administration of the USA	6	10%
Total	60	100%	Total	60	100%
Needed to pass	42	70%	Needed to pass	43	72%

Although there are no new topics being added to the exam, RegEd has added some material to our Study Guide which we believe will be valuable in helping students pass their exam.

Soft Dollars

Soft dollars is the term used to describe the means by which an investment adviser pays for investment services through the use of client commissions, as opposed to through normal payments, hard-dollar fees or cash. For example, a mutual fund may offer to pay for research from a brokerage firm by executing trades at the brokerage firm. Here's is how it works: Mutual Fund A wants to buy some research from a brokerage firm. In order to do so, Mutual Fund A must agree, for example, to direct at least \$10,000 in commissions to the brokerage house in return for research. Such an arrangement is known as a soft-dollar payment.

Over the years, the SEC has determined that "soft dollars" are the assets of the client and must be treated as such by both brokerage house and investment adviser. Regulators have determined that soft dollars may only be used for the purchase of investment related services, primarily research services that benefit the client. These services must assist the money manager in the carrying out of its investment decision-making process on behalf of the client. Examples of products or services that might qualify for purchase with soft dollars include:

- Publications or services that provide information about the value of securities or the advisability of investing in them.

- Analyses or reports concerning issuers, industries, securities, economic factors and trends, portfolio strategies, and the performance of accounts.
- Electronic services that provide market data to an adviser's analysts.
- Computer software that assists in the investment decision-making process.

Just as important for the purposes of the Series 63, there are some products and services that cannot be paid with soft dollars, including:

- Overhead expenses of the adviser including office space, typewriters, furniture, and clerical assistance.
- Compensation to broker-dealers for referring business to the adviser.
- Training of new broker-dealer personnel

Solicitors

In some cases, IAs may enlist the help of other persons to solicit or refer business to them. Any person who refers business to an investment advisor for compensation is defined as a solicitor.

Example: John Smith is an accountant with a large high net worth clientele. He has agreed to help VeryBest Advisors secure investment advisory business by referring his customers who may have a need for investment advisory services to VeryBest. The IA has agreed to pay John a fee for each account they open as a result of one of his referrals. In this example, John is acting as a solicitor for VeryBest.

The USA requires that all solicitors provide each potential customer they refer to an IA to provide the customer with the following:

- A copy of a written Solicitor's Disclosure Statement, which details the activities the solicitor undertakes on the IAs behalf, as well as their compensation for these activities.
- A copy of the IA's brochure or ADV Part II.

In addition, the solicitor must obtain a signed acknowledgement from the customer that these documents were delivered. There is an exception to this delivery and acknowledgement rule if the solicitor is only soliciting the sale of "generic" advice, such as a market timing service where advice is not specific to a single customer.

Remember that the USA says that any person who solicits the sale of investment advisory services can be defined as an IAR, and many state administrators will require solicitors to register as IARs, although they may not be required to take an examination unless they are actually providing advice.

Surety bonds for broker-dealers

The USA allows Administrators to require broker-dealers to post a surety bond. While Administrators have some discretion in the dollar amount of the bond required, the most common amount, and the one to know for the Series 63, is \$10,000.

Electronic communications

Email correspondence is treated no different than written correspondence in terms of how long it must be retained: five years for investment advisors and three years for Broker/Dealers. Keep in mind that the retention requirements apply to any email that includes anything that would otherwise need to be retained (recommendations, trade confirmations, etc.)

