

Overview of Securities Licensing Process, Ongoing Requirements & Costs

This memorandum has been prepared by Burch & Company, Inc., a registered Broker/Dealer and member of FINRA.⁽¹⁾ The scope of this document is threefold and may be used as a resource when evaluating securities licensing. First, the actual process of becoming securities licensed under an existing broker/dealer is outlined. Next, some of the ongoing requirements that you will be subject to as a registered person are discussed. Finally, some typical costs you may incur are listed.

LICENSING PROCESS: Getting Securities Licensed with an Existing Broker/Dealer

Let us assume that you have found a broker/dealer who will sponsor you for securities licensing. What's next?

1. Your broker/dealer will require some form of written agreement detailing the terms of your relationship, in which you will be either an Independent Contractor or an employee;
2. Your broker/dealer may require that you fill in a questionnaire, in order to provide them with information about your business: the types of businesses you represent, sources of income, a personal and/or corporate financial statement, anticipated number of transactions, experience in the M&A industry, etc.;
3. Your broker/dealer will most likely run your credit, civil and criminal background checks and will be required to contact any previous employers from the past three years;
4. You will be provided fingerprint cards which you will need to have completed and submitted to your broker/dealer, who will send to FINRA for FBI processing;
5. FINRA rules require that all registered persons disclose to their Broker/Dealer, *in writing*, all outside business activities in which they are engaged (this would include all business that is separate from your proposed securities activities through the broker/dealer: asset sales, consulting, etc).
6. All persons wishing to sit for securities examinations must be sponsored by a registered broker/dealer.⁽²⁾ This is achieved by the broker/dealer submitting a Form U-4 to FINRA on your behalf. This is a detailed, lengthy application, which covers your personal and identifying information, past residential and employment history, outside business activities, registrations with any other firms, jurisdictions, professional designations, and any criminal, regulatory, civil, termination or financial disclosure items you may have. Your firm will deliver this form to you for completion and your signature. Once you have completed, your broker/dealer will review, sign and submit this form to FINRA, thereby registering you as a representative of the broker/dealer (You are registered

⁽¹⁾ Formerly the NASD, FINRA is the Financial Industry Regulatory Authority, and thereby regulates broker/dealers and registered securities representatives, along with the SEC and State Securities Commissions.

⁽²⁾ The only exam that does not require broker/dealer sponsorship is the state exam: Series 63: you may take this prior to affiliating with a broker/dealer. See www.nasaa.org for more details.

here, but not yet *qualified* until you have passed your required exams). Once your Form U-4 is processed by FINRA, you may schedule your exams.

7. You will be required to pass a minimum of two FINRA qualifying exams*. Check with your broker/dealer to verify which exams they shall require. You will need to take the Series 63, along with either the Series 7 or Series 62.
 - **SERIES 63:** *Uniform State Law Exam: 65 Questions.* This is the state required exam and will allow you to be registered in each state, as needed, as long as your broker/dealer maintains corporate licensing in each state you require. The exam covers state laws and regulations. *Cost of exam: \$82; Study Material ranges from \$55-\$129. Time allotted:* One hour, 45 minutes.
 - **SERIES 07:** *General Securities Representative: 250 Questions.* Comprehensive exam, highly recognized license. Exam qualifies individuals to transact majority of securities products. *Cost of exam: \$265; Study Material ranges from \$225-\$449. Time allotted:* Two 3 hour periods (125 questions in each period).
 - **SERIES 62:** *Corporate Securities Limited Representative: 115 Questions.* The 62 qualifies you to participate in M&A transactions and other corporate securities. *Cost of exam: \$80; Study Material approximately \$135. Time allotted:* Two hours and thirty minutes.
 - **Study Material:** *Not limited to the vendors below (You may check the web for more self-study and classroom vendors)*
Series 7, 62 and 63: www.stcusa.com
Series 7 and 63: www.kaplanfinancial.com
8. There are numerous testing locations in all major cities (Exams are multiple-choice and are taken on a computer at an approved testing facility). Ask your broker/dealer for more information.

*Once you have passed the Series 63 and either the Series 62 or 7, you are QUALIFIED. There should be no waiting period to add states to your registration, as long as the broker-dealer you have affiliated with is registered in all fifty states. Please check with your broker/dealer's compliance department.
9. Your broker/dealer will give you a copy of their Policies & Procedures and you may be required to acknowledge review and understanding of such in writing. Open dialogue with your broker/dealer regarding any questions you have will be beneficial, and will allow you to understand what is expected of you in regards to securities deals.
10. Your broker/dealer will need to review the contracts you currently execute with clients, such as your letters of engagement, agreements, etc. During this review, you should learn from your broker/dealer how your securities-related M&A activities will be reviewed and processed (i.e. how assignments work, deal files, due diligence, blue sky licensing, offering documents, etc).

ONGOING REQUIREMENTS: What to Expect as a Registered Representative

Obtaining your licensing should not be difficult, as long as your broker/dealer leads you through the process. Once you become a Registered Representative of a FINRA member firm, your broker/dealer will be charged with certain oversight and supervisory responsibilities, even before you pass your exams. Understanding these requirements at the onset will prepare you for ongoing requests from your broker/dealer:

1. *Email Monitoring and Storage:* Your broker/dealer is required to not only store your outgoing/incoming emails, but to also provide proof of periodic review of such to the regulators, pursuant to FINRA Rule 3010. To satisfy this requirement, most broker/dealers will assist you or your IT person in setting up your emails to go through the broker/dealer's approved third-party vendor.
2. *Outside Securities Accounts:* Your broker/dealer will be required to review and retain copies of any securities accounts that you have direct or indirect ownership in. Regulations require that you notify the brokerage firm(s) carrying your accounts of your affiliation with a registered broker/dealer and your authorization of duplicate statements to be sent to your broker/dealer.
3. *Ongoing Compliance:* Your broker/dealer is required to conduct an Annual Compliance Meeting with you. Larger firms may conduct this meeting at a centralized location and mandate attendance. Smaller firms may choose to conduct this meeting as a webinar or even one-on-one phone calls. Many firms send out regular compliance questionnaires, as well. Remember, your broker/dealer is charged with oversight and knowledge of all activities of its registered persons, and open, regular communication is key.
4. *Advertising/Sales Literature:* You will be required to include the name (and possibly address and telephone number) of your broker/dealer on any advertising, including your website. You will most likely be required to add broker/dealer disclaimer to your letterhead and business cards. You should be able to keep your name/brand identity, which may be achieved by adding only a small disclaimer containing the required disclaimer info provided by your broker/dealer.
5. *Assignment of Engagements:* If you have an engagement that turns from asset sale to any securities-related activity (stock, note, debt, carry back, private placement, etc), such engagement must be assigned to and accepted by your broker/dealer. Your firm may allow you to add language to your standard engagements to cover this possibility or amend any existing engagements.
6. *Books and Records:* Your broker/dealer will need to maintain duplicate files relating to your securities-related activities and transactions and will therefore need copies of all pertinent documents, such as Stock Purchase Agreements, Engagements, Confidential Business Reviews, due diligence files, etc. You will also need to obtain from your client and provide to your broker/dealer basic account information (i.e.

name and social, DOB, net worth, tax ID if entity, organizational docs for corporations or LPs, etc) to ensure compliance with SEC Books and Records rules and the PATRIOT Act.

7. *Continuing Education:*

Firm Element: On an annual basis, your firm will provide you with what is called Firm Element: a continuing education requirement that is suited directly for the firm's concerns, line of business, etc.

Regulatory Element: You will also be required to sit for Regulatory Element, which is continuing education provided and required by FINRA within 120 days of your two year anniversary and then every three years thereafter. Your firm should notify you when these anniversaries come up.

8. *Anti-Money Laundering:* You are required to participate in Anti-Money Laundering Training on a regular basis. (Your firm may provide this training in the form of a Webinar, Webcast, or an article, etc).

COSTS ASSOCIATED WITH REGISTRATION

Aside from the costs you will face with each securities transaction (success fee sharing/commission splits, due diligence), there are upfront and renewal registration fees when you are licensed with a broker/dealer. Every firm varies in their fee schedules, but below are estimated costs associated with registration:

1. Initial and Renewal Registration Fees: Can range between \$1K and \$3K and includes items, not limited to: FINRA fees, fingerprint cards, background checks, testing, Continuing Education, branch office exams, administrative fees, state registrations, corporate offset costs, securities counsel review of your existing documents, email set up, etc. Renewal fees are typically due on an annual basis
2. E&O Insurance: Budget anywhere from \$1K-\$3K per year for E&O coverage

Prepared by:

Jessica Burch
Vice President & CCO
Burch & Company, Inc.
Member FINRA/SIPC
911 Main Street
Suite 2222
Kansas City, MO 64105
816.842.4660

www.burchco.com

<http://burch.typepad.com>

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