



A Proposal for Registering Securities Sales Representatives

The Egypt Capital Markets Development Project



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A PROPOSAL FOR REGISTERING SECURITIES SALES REPRESENTATIVES

A. Purpose

This report proposes a program to register securities sales persons or account representatives. That is, to register those employees of the stock exchange or brokerage firms who give advice to customers on which securities to buy and sell, solicit new accounts, and maintain existing accounts.

The unregulated entrance of such personnel into the industry poses a considerable risk of malpractice related to the selling of securities to investors with the primary goal of generating a continuous order flow, as opposed to sound investment decisions, thus sustaining a steady stream of commissions. These acts will eventually distort the public image of, and make it difficult for, brokerage firms to justify spending time and effort on training their sales representatives. It is only when mandatory registration is initiated that all of the industry's firms will be compelled to pay serious attention to the training needs of their employees.

A number of the senior core positions in the Egyptian securities industry are already subject to registration requirements or might be thought to benefit from the application of such requirements. For example, chief financial officers, chief compliance officers, and heads of trading must register with the Capital Market Authority (CMA). Many officials and observers contend that eventually all floor brokers should also have to meet specific registration requirements. However, it seems more practical to build a registration program that acts as a platform on which all the other registration programs can be erected. That platform should be a registration program for all securities industry sales representatives. Apart from the fact that securities sales representatives will make up the largest portion of the securities workforce, they also come into the closest and most direct contact with the investing public. Therefore, this proposal is aimed at establishing a registration program for securities representatives using a methodology and an organizational pattern that can also be used to register any or all other core securities positions.

B. Reasons For Developing a Program to Register Securities Sales Representatives

There are a number of sound reasons for developing such a program. They include the following:

1. The number of sales representatives exceeds those occupying any other core positions in the industry.
2. The public image of the securities industry is very much determined by the actions of sales representatives, if for no other reason than that the consequences of their actions are more immediately perceived by the investing public.
3. The economic importance of their sales representatives to their brokerage firms makes it particularly important that they be required to have an acceptable knowledge of securities products, regulations, account practices, and the securities market as a whole.
4. To avoid financial and legal risks to firms resulting from any negligent conduct on the part of securities sales representatives in handling customer accounts and transactions, such persons should be required to know the appropriate regulations governing communications with, and transactions made for, the individual investor.

5. Registration of sales persons will draw more business from foreign institutional investors to the brokerage companies, thus increasing order flow and commissions.

C. Proposal

The Capital Markets Development (CMD) project will assist the CMA's Registration Commission in developing a registration program for securities representatives that makes use of the most recent innovations in testing and measurement. The proposed program will also adhere to those procedures and organizational patterns that have proven effective when employed by other registration programs. Finally, it will be designed so as to provide a model on which other registration or licensing programs may be based.

D. Implementation

Implementing the registration program will involve the following activities:

- a) Fully informing those representatives of the stock exchange and securities firms affected by the registration program of the reasons, advantages, and administrative procedures involved in the program's development and maintenance. Obtaining their input and suggestions regarding these matters.
- b) Seeking the proper administrative and legislative approvals for, and assistance in, establishing and implementing the program.
- c) Securing the appointment of a rotating "examination committee" from experienced professionals drawn from both the stock exchange and securities firms. Initially, they will be responsible for designing the two instruments used in registration—the registration form and the written examination. Their second and ongoing responsibility will be to write and review all questions needed to construct different forms of the written examination.
- d) Securing the appointment of an experienced person in devising multiple choice questions. The person's main task will be receiving exam questions from the examination committee and then transforming them into a consistent multiple-question exam.
- e) Train the members of the examination committee in the methodologies used to design registration forms and specifications for the written examination—providing them with proper instructions on how to write and critique types of questions for measuring effectively the required job-related knowledge.
- f) Training personnel assigned by the registration commissioner to carry on the day-to-day operations of the registration program. These operations include filing and updating registration forms, organizing and maintaining the question bank, the assembling, delivering, and scoring the examination forms, and reporting candidate scores to their employers.
- g) Establishing a database that will store and update information about the examinees and the examination committee.
- h) Providing advice and assistance in encouraging approved programs for training candidates to pass the written examination.

The remainder of this paper outlines our proposal for developing a program for registering securities representatives in greater detail. We will discuss the six main activities (A-F) listed above and conclude by outlining a time schedule for their completion. Once the CMA commits to

the program and assigns resources, we estimate that all of the activities that involve Egyptian personnel can be completed in 11 weeks. An additional two weeks will be required to develop or adapt the training materials, directions, and manuals required to effectively carry out the training needs of the program.

E. Information that Should be Communicated about the Registration Program

E1. What is a Registration Program?

1. A registration program is a means of ensuring that persons who perform a certain job have the appropriate personal background and possess the knowledge required to perform it at a minimum competency level.
2. A registration program does not aim to replace employers in making decisions as to who should be hired to do a job. It simply requires that such persons, once hired, meet a uniform standard of competence and follow a specified probationary or apprenticeship period on the job.

E2. The Objectives of a Registration Program

The program aims at increasing customer confidence and trust in firms by registering the competency of those who act as their agents or representatives. It also aims at reducing the number of legal or other disputes between firms and their customers due to a lack of professional competence on the part of those who act as their sales representatives.

E3. The Means by which a Program to Register Securities Representatives Achieves its Objectives

The following two procedures should be followed in carrying out the program's objectives:

1. As a requirement for registration as a securities sales representative, every applicant must complete and sign a registration form on which he/she provides detailed personal background information regarding previous and current employment, education, and any legal problems he/she may have had in the past five years. Completion of this form replaces a personal interview with the applicant. The completed registration form should be filed, and the applicant's current employer will be responsible for notifying the registration authority of any subsequent changes in the employee's circumstances, such as job termination. The nature of the information supplied by the applicant for registration will help determine whether he/she meets or will continue to meet the eligibility requirements for registration.
2. Every applicant for registration as a securities sales representative must take and pass a written examination that consists of multiple-choice questions covering the knowledge required to perform the job. Since many applicants may only have been employed as sales representatives for a relatively short period prior to the examination, the examination will make a simple determination about all applicants, namely, whether or not they have attained a minimum competence level of proficiency in the knowledge areas in which are being tested. The written examination will be designed as pass/fail. All scores above passing will indicate only that the applicant is minimally competent to do the job. Such scores should not be interpreted by employers in any other sense. For example, if a candidate scores well above the passing score, it should not be taken as any indication that he/she will perform well above the minimum competence level on the job. It should also be noted that minimum competence means a level of job performance that fully satisfies the investment expectations of both customers and regulators.

F. Advantages to the Securities Industry of a Registration Program

Account Executive Sales Persons are those who are most directly involved with a firm's customers. The willingness of individual investors to open or maintain securities accounts with a particular brokerage is very often dependent upon their respect for the professional knowledge exhibited by its sales persons. If such persons are registered after carefully examining their personal backgrounds and professional competence, the public image and reputation of the firms employing them increase. This result should lead inevitably to an increase in the total retail market for securities.

Basic knowledge of the following points helps prevent the sales person from committing acts that lead to suits or regulatory actions being against an employee's firm:

- proper professional conduct
- rules and regulations
- securities industry products

Although a registration program cannot entirely prevent the occurrence of conflicts and violations, it does much to reduce them.

Foreign institutional investors are much more likely to acquire a serious interest in trading domestic Egyptian securities if they recognize that they are dealing with sales representatives who are properly registered as competent to provide the required services. After all, in many countries such registration is mandatory.

Credibility is the key to the long-lasting success of any capital market. Public trust in the professional competency of its personnel is an essential component of credibility. The establishment of a registration program offers the greatest opportunity for improving credibility, especially if it is initiated by a program aimed at registering personnel such as sales persons, who come into the most direct contact with the investing public.

G. The Organization of a Registration Program

A registration program requires the following three operational units:

A Registration Commission or the Registration Commissioner usually presides over an executive committee. This body is responsible under the commissioner for making or approving all important decisions regarding the program. Such decisions include:

- Who must be registered?
- Eligibility requirements for registration
- Registration fees and procedures

The following must be approved:

- The registration form
- The written examination
- The arrangements for administering the written examination

An Examination Committee is a body appointed by and serving under the commissioner. The committee should consist of securities professionals. Its members are usually appointed on the basis of recommendations received from professional associations that represent the securities

industry. Its responsibilities are in connection with the design and maintenance of the written examination. It is responsible for the following:

- Determining the test specifications of the written examination
- Writing and reviewing questions for the examination question bank
- Establishing the pass/fail score

Exam Editor: An individual appointed and serving under the commissioner. He should be a member of the industry, trained to the exam methodology. His/her job will be receiving the exam questions from the committee, formatting the questions into consistent and well-designed multiple-choice questions that measure the degree of knowledge. He or she should be trained for this process

A Registration Department is a permanent body appointed by and serving under the commissioner to carry out the logistical operations connected with assembling, delivering, and scoring each form of the written examination. Because the examination questions are all multiple choice, they can be scored mechanically, thus ensuring the complete objectivity of the scoring process. The registration department is also responsible for reporting candidate scores on the examination to their respective employers.

H. Legislative and Administrative Approvals Necessary to Implement a Registration Program

Legislative or administrative approval is required to make registration mandatory for all securities persons defined as securities sales representatives.

Establish the three operational units described above:

- Registration Commission
- Examination Committee
- Registration Department

Determine any fines or other penalties to be imposed for such actions as making misstatements or omissions on the registration form, or cheating on the written examination.

I. Designing the Registration Form and the Written Examination

I1. The Design of the Registration Form

This form can only be properly designed after close consultation with members of the registration committee and with input from the examination committee. The form should be designed so as to elicit from applicants all the pertinent personal information required to decide on their fitness to carry out the responsibilities attached to the job. As a guide to determining the exact format to be adopted, model forms derived from those currently in use in other registration programs can be used.

For filing and tracking purposes, a “central registration depository” (CRD) number should be assigned to each applicant for registration. The inclusion of this number should be a part of the information contained on each registration form.

12. The Design of the Written Examination

Several considerations enter into the design of a written examination form. Each of these will be discussed briefly:

Test Validity: This means that the examination must measure only the knowledge required to perform the job of securities sales representative. To ensure that the written examination is valid, a clear and concise description of the most important tasks performed (job analysis) must be performed. The job-related knowledge measured on the written examination is then derived from the job descriptions. In this respect, it should be noted that such a job analysis has been performed for training purposes as part of the Capital Market Authority Training Project Training Program (USAID contract number PCE-0025-Q-00-3071-00). Use of this job analysis and its findings would greatly facilitate and shorten the process of ensuring test validity.

Test Reliability: The examination must be designed to be a reliable measuring instrument. That is, it must be designed so that a candidate, who receives a certain score after taking it for the first time, would obtain approximately the same score if he were to take it again shortly afterwards. The reliability of the examination depends chiefly on the number of questions used to test the required knowledge areas. The more questions on the examination, the more likely that it will measure reliably. For this reason, and others, almost all written examinations used in registration programs are made up of multiple-choice rather than essay questions, since it is possible for a candidate to answer a far greater number of multiple-choice than essay questions in a specified amount of time.

Test Security: If the written examination is to remain secure, a different but parallel examination form must be given at each test administration. All of the forms must be parallel.

Test Specifications/Parallel Construction. An examination design method must be followed to ensure that all forms are parallel. That is, that each form covers exactly the same knowledge areas at the same difficulty level as any other form. If the examination forms are not uniform or parallel in these respects, any differences between the examination performances of different test administration groups may well have been determined by the particular form of the examination taken by each group rather than by any differences in their respective ability levels.

The particular methodology used to construct parallel forms of an examination requires the design of a uniform set of examination or test specifications for use in the construction of every form. The designers of the written examination for registering securities representatives will be guided in their task by presenting them with a model set of test specifications, particularly designed for their purposes and based as closely as possible on the particular knowledge requirements for Egyptian sales representatives.

Question Bank: Enough questions, all at minimum competence level of difficulty, must be written to provide for several alternative and parallel forms of the examination. Every question must be written to and categorized according to the test specifications. If this is done properly, they can be filed in such a way as to make the assembly of each examination form a fairly simple matter. Training in both question writing and test-form assembly will be based on the use of appropriate model directions and a specially designed question-writing manual.

Committee Review of All Examination Questions: To ensure that all questions are of uniformly good quality, each question must be reviewed and approved by an experienced committee of securities professionals before it is placed in the question bank. The review, as well as the writing of technically proficient multiple-choice questions, does not come instinctively. Without careful

training, even knowledgeable securities professionals are likely to write unacceptable multiple choice questions. An unacceptable question may be described as one that gives away the correct answer because of flaws in its construction. The reviewers will be trained to detect such questions by an experienced professional writer who will advise them during their initial review sessions.

J. Serving the Ongoing Logistical Needs of the Registration Program

A registration program requires the performance of the following ongoing functions by a permanent group of clerical personnel trained to carry them out:

- Filing and updating of all completed registration forms
- Maintaining and updating all questions accepted for inclusion in the written examination in a question bank so that parallel test forms can be assembled accurately, efficiently, and quickly
- Supervising the printing and delivery of all examination forms to the specified administration centers in a timely and secure fashion
- Providing each test administration center with a uniform set of procedures for giving out and collecting the examination materials and for safeguarding against cheating
- Establishing efficient and speedy procedures for scoring candidate answer sheets
- Developing a system for reporting candidate scores on the examination to their respective employers in a uniform and unambiguous fashion

The clerical personnel assigned to the above duties will receive careful instruction on how to carry them out:

- They will be introduced to efficient procedures for filing and updating registration forms to ensure that the employment histories of all registered persons are easily accessible and current.
- They will be shown how to use a categorization system based on the test specifications to organize the question bank and assemble test forms.
- They will be instructed in the use of a manual that lays down accepted procedures for conducting test administrations.
- They will receive directions on how to score candidates' answer sheets and on how to report such scores in a uniform and objective manner.

K. Program Implementation Plan

Stage 1 (2 weeks)

Develop or adapt seminars and training materials, model directions, and manuals for use with Egyptian program participants.

Delivery of above materials to CMD for translation into Arabic.

Stage 2 (4 weeks)

Conduct seminar(s) explaining and discussing the purposes, organization, and function of the program to representatives of the Egyptian securities industry.

Conduct a workshop on how to develop a registration form.

Conduct workshops in developing test specifications, and in writing and reviewing multiple-choice questions.

Give out question-writing assignments to members of the examination committee.

Stage 3 (4 weeks)

Review all questions written by the members of the examination committee for the question bank.

Categorize all questions accepted for inclusion in the question bank based on the test specifications.

Assemble a pre-test form of the examination from the question bank to be administered to a trial candidate population.

Stage 4 (4 weeks)

Conduct workshops for the program's clerical personnel on how to follow the methods, directions, and procedures required to operate and maintain the program. These are described above in the discussion on "Serving the Ongoing Logistical Needs of the Registration Program."

Conduct a simulated test administration using the already developed pre-test form. Pre-test administration provided a hands-on exercise for the clerical personnel in carrying out their responsibilities.

Conduct seminars and workshops for trainers requiring information on the most effective means of developing training courses for registration applicants.

TOTAL: 14 WEEKS