



Securities Industry Continuing Education Program Firm Element Advisory – Q2 2018

Introduction

The Securities Industry/Regulatory Council on Continuing Education (Council) publishes the Firm Element Advisory (FEA) to highlight current regulatory and sales practice topics for possible inclusion in Firm Element training plans. The Council has identified the topics from a review of industry, regulatory and self-regulatory organization (SRO) announcements, and publications of significant events.

The FEA briefly identifies each topic and provides links to relevant documents issued about the specified subjects. The FEA is designed for internet use; however, it can be printed. Be advised that each link must be printed separately in order to encompass the full document and subjects covered.

The Council suggests that firms use the FEA as an aid in evaluating and prioritizing their Firm Element needs and developing written training plans. However, firms are reminded that they should not rely on the FEA as a comprehensive list of all areas they should consider.

All new material in the FEA is denoted by a “(New)” next to the appropriate title. Material from previous editions that the Council has updated is denoted with an “(Updated)” next to the appropriate title.

Firms that engage in multiple businesses may not want to adopt a one-size-fits-all approach to Firm Element Training, opting instead to provide training that is appropriate to an individual’s job functions.

In response to requests from firms for more resources to help them with Firm Element planning, the Council suggests the following tools they may use in addition to the FEA:

- [Guide to Firm Element Needs Analysis and Training Plan Development](#): Suggestions for effectively performing the needs analysis and developing written training plans.
- [Continuing Education Regulatory Element Report](#): A quarterly report, available through FINRA’s Report Center that compares a firm’s Regulatory Element Continuing Education performance with the industry at large for the same programs and modules. Firms should review the performance of their registered persons since the last needs analysis to determine if any modules or topics appear to warrant additional training. Firms may sign up to view the reports on [FINRA’s Report Center](#).



- [FINRA Regulatory and Examination Priorities Letter](#): A letter issued annually by FINRA that highlights new and existing areas of significance to FINRA's examination program that may be useful when developing educational programs within a firm.
- [SEC Examination Priorities Memorandum](#): A memorandum issued annually by the SEC's Office of Compliance Inspections and Examinations to communicate with investors and registrants about areas that are perceived by the SEC staff to have heightened risk, and to support the SEC's mission to protect investors.
- [FINRA Investor Alerts](#): Periodic alerts that highlight products and sales practices of particular concern, which firms may use to supplement training materials.
- [FINRA Online Learning](#): A collection of courses, webinars and podcasts that address a range of training topics for compliance personnel, registered persons, administrative staff, operations staff and those with supervisory responsibilities. Some of the courses offer completion tracking and deliver virtual compliance training that may be suitable for Firm Element Continuing Education.
- [MSRB Education Center](#): A multimedia library of information that explains how the municipal securities market works and how participants can make informed decisions.
- [NASAA 2017 Enforcement Report Based on 2016 Data \(September 26, 2017\)](#): Enforcement Actions Against Licensed Broker Sales Agents
- [FINRA Topic Page – Small Firms](#): FINRA has created this page to provide information for the small firm community—those firms with 150 or fewer registered representatives. This page contains current and past communications, links of interest to small firms, and other information.

The Council recommends using all available tools to make Firm Element planning as efficient and effective as possible.

Questions?

For more information, contact cecounciladmin@finra.org



ALTERNATIVE INVESTMENTS

Cryptocurrencies and ICOs

Cryptocurrencies

FINRA issued an alert to warn investors to be cautious when considering the purchase of shares of companies that tout the potential of high returns associated with cryptocurrency-related activities without the business fundamentals and transparent financial reporting to back up such claims. According to the SEC, there is substantially less investor protection in cryptocurrency markets than in traditional securities markets, with correspondingly greater opportunities for fraud and manipulation.

- [NASAA Reminds Investors to Approach Cryptocurrencies, Initial Coin Offerings and Other Cryptocurrency-Related Investment Products with Caution \(January 4, 2018\)](#)
- [FINRA Investor Alert December 21, 2017](#): Don't Fall for Cryptocurrency-Related Stock Scams
- [SEC Public Statement \(December 11, 2017\)](#): Statement on Cryptocurrencies and Initial Coin Offerings by SEC Chairman Jay Clayton

DPPs and REITs

DPP and Unlisted REIT Securities

The SEC approved amendments to NASD Rule 2340 (Customer Account Statements) to modify the requirements relating to the inclusion of per share estimated values of direct participation program (DPP) and unlisted real estate investment trust (REIT) securities on account statements, and to FINRA Rule 2310 (Direct Participation Programs) to make corresponding changes to the requirements applicable to members' participation in public offerings of DPP or REIT securities. The amendments became effective on April 11, 2016.

- [FINRA Regulatory Notice 15-02 \(January 2015\)](#): SEC Approves Amendments to FINRA Rule 2310 and NASD Rule 2340 to Address Values of Direct Participation Program and Unlisted Real Estate Investment Trust Securities

Communications With the Public

FINRA issued guidance on communications with the public concerning unlisted real estate investment programs, including unlisted REITs and unlisted DPPs that invest in real estate.



- [FINRA Regulatory Notice 13-18 \(May 2013\)](#): FINRA Provides Guidance on Communications With the Public Concerning Unlisted Real Estate Investment Programs

General

SEC Investor Bulletin: [Alternative Mutual Funds \(February 3, 2017\)](#)

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to inform you about features, and some potential risks, of alternative mutual funds.

Supervision

Volatility-Linked Exchange-Traded Products

Volatility-linked exchange-traded products (ETPs) are designed to track Chicago Board Options Exchange Volatility Index (VIX) futures, rather than the VIX itself. For the reasons explained further below, many volatility-linked ETPs are highly likely to lose value over time. Accordingly, volatility-linked ETPs may be unsuitable for certain retail investors, particularly those who plan to use them as traditional buy-and-hold investments. This Notice reminds firms of their sales practice obligations in connection with volatility-linked ETPs as discussed more generally in Regulatory Notice 12-03, including, without limitation, that recommendations to customers must be based on a full understanding of the terms, features and risks of the product recommended, sales materials must be fair and accurate, and firms must have reasonable supervisory procedures in place to ensure that these obligations are met.

- [FINRA Regulatory Notice 17-32 \(October 2017\)](#): FINRA Reminds Firms of Sales Practice Obligations for Volatility-Linked Exchange-Traded Products

Complex Products

FINRA published guidance to firms about supervisory controls for complex products, which may include a security or investment strategy with novel, complicated or intricate derivative-like features, such as structured notes, inverse or leveraged exchange-traded funds, hedge funds and securitized products, such as asset-backed securities. These features may make it difficult for a retail investor to understand the essential characteristics of the product and its risks.



Regulatory Notice 12-03 identifies characteristics that may render a product “complex” for purposes of determining whether the product should be subject to heightened supervisory and compliance procedures and provides examples of heightened procedures that may be appropriate.

- [FINRA Regulatory Notice 12-03 \(January 2012\)](#): Heightened Supervision of Complex Products

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ANTI-MONEY LAUNDERING (AML)

FinCEN’s Customer Due Diligence Requirements for Financial Institutions and FINRA Rule 3310

FINRA published guidance regarding member firms’ obligations under FINRA Rule 3310 (Anti-Money Laundering Compliance Program) in light of the Financial Crimes Enforcement Network’s (FinCEN) adoption of a final rule on Customer Due Diligence Requirements for Financial Institutions (CDD Rule). FinCEN’s CDD Rule became effective on July 11, 2016, and member firms were required to be in compliance by May 11, 2018.

- **(New)** [FINRA Regulatory Notice 18-19 \(May 2, 2018\)](#): FINRA Amends Rule 3310 to Conform to FinCEN’s Final Rule on Customer Due Diligence Requirements for Financial Institutions
- **(New)** [BZX Regulatory Circular 18-002 \(February 14, 2018\)](#): Anti-Money Laundering Compliance Program and Customer Due Diligence Requirements
- **(New)** [CBOE Regulatory Circular 18-004 \(February 14, 2018\)](#): Anti-Money Laundering Compliance Program - Customer Due Diligence Requirements and Filing Requirements for Certain Trading Permit Holders
- [FINRA Regulatory Notice 17-40 \(November 21, 2017\)](#): FINRA Provides Guidance to Firms Regarding Anti-Money Laundering Program Requirements Under FINRA Rule 3310 Following Adoption of FinCEN’s Final Rule to Enhance Customer Due Diligence Requirements for Financial Institutions

AML Compliance

FINRA Rule 3310 (Anti-Money Laundering Compliance Program) requires each member firm to develop and implement a written AML program (that must be approved, in writing, by a member of senior management) that is reasonably designed to achieve and monitor compliance with the requirements of the Bank



Secrecy Act and the implementing regulations promulgated by the Department of the Treasury. The rule also sets forth, among other things, that the AML program provide ongoing training to appropriate personnel. Information and guidance relating to AML rules, regulations and compliance are available from a number of sources, such as the following:

- [FINRA Topic Page: Anti-Money Laundering](#)

AML Template for Small Firms

FINRA provides a template for small firms to assist them in fulfilling their responsibilities to establish the AML compliance program required by the Bank Secrecy Act and its implementing regulations and FINRA Rule 3310. The template provides text examples, instructions, relevant rules and Web sites and other resources that are useful for developing an AML plan for a small firm.

- [AML Template for Small Firms](#)

AML Source Tool for Broker-Dealers

The SEC maintains and periodically updates its AML Source Tool for Broker-Dealers, a compilation of key AML laws, rules, orders and guidance applicable to broker-dealers.

- [AML Source Tool for Broker-Dealers \(January 11, 2017\)](#)

SAR Information Accessibility

The Financial Crimes Enforcement Network (FinCEN) regulations regarding the confidentiality of suspicious activity reports (SARs) require a broker-dealer to make SARs and supporting documentation available to any SRO that examines the broker-dealer for compliance with the requirements of 31 CFR 1023.320 (Reports by brokers or dealers in securities of suspicious transactions), also known as the “SAR Rule,” upon the request of the SEC. On January 26, 2012, the SEC issued a letter to FINRA authorizing FINRA staff to ask for SARs and SAR information from firms in certain circumstances. On the same date, SEC staff also issued a letter to chief executive officers of all SEC-registered FINRA firms requesting that they make SARs and supporting documentation available to FINRA.

- [FinCEN Advisories/Bulletins/Fact Sheets](#)
- [SEC Letter to FINRA \(January 26, 2012\)](#)
- [SEC Open Letter to CEOs of All SEC-Registered, FINRA Member Broker-Dealers \(January 26, 2012\)](#)



- [FINRA Regulatory Notice 12-08 \(February 2012\)](#): SEC Requests Broker-Dealers Make SARs and SAR Information Available to FINRA

SAR Alert Message Line

The SEC SAR Alert Message Line phone number is 202-551-SARS (7277). This number should only be used when securities firms have filed a SAR that may require immediate attention by the Commission. Calling the SEC SAR Alert Message Line does not alleviate a firm's obligation to file a SAR or notify an appropriate law enforcement authority, such as a local office of either the Internal Revenue Service Criminal Investigation Division or the FBI. General questions on SARs and other BSA filing requirements may be directed to FinCEN's Regulatory Helpline at 1-800-949-2732.

- [SAR Alert Message Line](#)

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BUSINESS CONTINUITY PLANNING

Business continuity remains a priority for firms and their associated persons. It is important that firms maintain adequate business continuity and contingency plans, and ensure that employees are aware of and understand these plans.

- [FINRA Topic Page: Business Continuity Planning](#)
- [FINRA Small Firm Business Continuity Planning Template](#)

Designation Information Regarding Mandatory Participation in Business Continuity and Disaster Recovery Testing

Regulation Systems Compliance and Integrity (Regulation SCI) was adopted by the SEC and requires the MSRB, as an SCI entity, to, among other things, require certain brokers, dealers, municipal securities dealers and municipal advisors registered with the MSRB (MSRB Registrants) to participate in the testing of the operation of the MSRB's business continuity and disaster recovery plans (BC/DR Plans), in the manner and frequency specified by the MSRB, provided that such frequency shall not be less than once every 12 months. To facilitate this Regulation SCI requirement, the MSRB adopted Rule A-18, on mandatory participation in business continuity and disaster recovery testing, on November 2, 2015.

Under Rule A-18, the MSRB designates as Participants in the mandatory functional and performance testing of the operation of the MSRB's BC/DR Plans



those MSRB Registrants whose submissions of data to the MSRB, taken as a whole, account for a meaningful percentage of the MSRB's data submission volume required to be provided by MSRB Registrants, measured during an established time period.

- [MSRB Regulatory Notice 2017-06 \(March 7, 2017\)](#): Designation Information Regarding Mandatory Participation in Business Continuity and Disaster Recovery Testing

Business Continuity Planning

FINRA, the SEC and CFTC issued a joint advisory on business continuity planning to encourage firms to review their business continuity plans and to provide best practices to help improve responses to, and to reduce recovery time after, significant large-scale events.

- [FINRA Regulatory Notice 13-25 \(August 2013\)](#): FINRA, the SEC and CFTC Issue Joint Advisory on Business Continuity Planning

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COMMUNICATIONS

Social Media and Digital Communications

FINRA issued guidance regarding the application of FINRA rules governing communications with the public to digital communications, in light of emerging technologies and communications innovations.

- [FINRA Regulatory Notice 17-18 \(April 2017\)](#): Guidance on Social Networking Websites and Business Communications

Communications With the Public

The SEC has approved amendments to FINRA rules governing communications with the public. The amendments revise the filing requirements in FINRA Rule 2210 (Communications with the Public) and FINRA Rule 2214 (Requirements for the Use of Investment Analysis Tools) and the content and disclosure requirements in FINRA Rule 2213 (Requirements for the Use of Bond Mutual Fund Volatility Ratings). The amendments became effective on January 9, 2017.

- [FINRA Regulatory Notice 16-41 \(October 2016\)](#): SEC Approves Amendments to Rules Governing Communications With the Public
- [FINRA Rule 2210 Interpretive Guidance Questions and Answers](#)



Communications With the Public about Variable Life Insurance and Variable Annuities

As part of the process of developing a new Consolidated FINRA Rulebook, NASD Interpretive Material 2210–2 (Communications with the Public About Variable Life Insurance and Variable Annuities) has been transferred into the Consolidated FINRA Rulebook as FINRA Rule 2211 (Communications with the Public About Variable Life Insurance and Variable Annuities) without any substantive changes. The rule became effective on September 30, 2016.

- [Securities Exchange Act Release No. 78851 \(September 15, 2016\), 81 FR 64969 \(September 21, 2016\) \(File No. SR-FINRA-2016-036\)](#): Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt NASD Interpretive Material 2210-2 as FINRA Rule 2211 (Communications with the Public About Variable Life Insurance and Variable Annuities) in the Consolidated FINRA Rulebook

Educational Communication Related to Firm Recruitment Practices and Account Transfers

The SEC approved the adoption of FINRA Rule 2273 (Educational Communication Related to Recruitment Practices and Account Transfers), which establishes an obligation to deliver an educational communication in connection with firm recruitment practices and account transfers. The rule became effective on November 11, 2016.

- [FINRA Regulatory Notice 16-18 \(May 2016\)](#): SEC Approves Rule Requiring Delivery of an Educational Communication to Customers of a Transferring Representative
- [Educational Communication](#): Issues to Consider When Your Broker Changes Firms
- [Broker-Dealer Recruitment Disclosures](#): Complying with FINRA Rule 2273
- [FAQs Regarding FINRA Rule 2273](#)

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CYBERSECURITY

SEC Investor Bulletin

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to help investors protect their online investment accounts from fraud. As with all web-based accounts, investors should take precautions to help ensure that their online investment accounts remain secure. These online security tips can help.



- [SEC Investor Bulletin](#): Protecting Your Online Accounts from Fraud (April 26, 2017)

A Small Entity Compliance Guide: Final Model Privacy Form under the Gramm-Leach-Bliley Act

The model privacy form is designed to make it easier for consumers to understand how financial institutions collect and share their personal financial information and to compare different institutions' information practices. For a guide to implementing these procedures visit: <https://www.sec.gov>

FINRA Report on Cybersecurity Practices

Like many organizations in the financial services and other sectors, broker-dealers (firms) are the target of cyberattacks. The frequency and sophistication of these attacks is increasing and individual broker-dealers, and the industry as a whole, must make responding to these threats a high priority.

A variety of factors are driving firms' exposure to cybersecurity threats. The interplay between advances in technology, changes in firms' business models, and changes in how firms and their customers use technology create vulnerabilities in firms' information technology systems. For example, firms' Web-based activities can create opportunities for attackers to disrupt or gain access to firm and customer information. Similarly, employees and customers are using mobile devices to access information at broker-dealers that create a variety of new avenues for attack.

The landscape of threat actors includes cybercriminals whose objective may be to steal money or information for commercial gain, nation states that may acquire information to advance national objectives, and hacktivists whose objectives may be to disrupt and embarrass an entity. Attackers, and the tools available to them, are increasingly sophisticated. Insiders, too, can pose significant threats.

In February 2015, FINRA issued a report intended to assist firms in making responding to cybersecurity threats a priority. The report is based on FINRA's 2014-targeted examination of firms and other related initiatives.

- [FINRA Report on Cybersecurity Practices \(February 2015\)](#): This report presents an approach to cybersecurity grounded in risk management to address cybersecurity threats. It identifies principles and effective



FINRA Investor Alert – “Phishing” and Other Online Identity Theft Scams: Don't Take the Bait

FINRA issued this alert to warn investors that according to computer security experts, economic cyber-crime continues to surge. “Phishing” attacks—scams that use spam email or a fake website to lure an individual into revealing his or her bank or brokerage account information, passwords or PINs, Social Security number or other types of confidential information—have increased significantly since they were first discovered in 2005. FINRA issued this alert to keep investors informed about some of the latest online identify theft scams targeting financial sector customers and to provide tips for spotting and avoiding these scams.

- [FINRA Investor Alert \(July 2014\): “Phishing” and Other Online Identity Theft Scams: Don't Take the Bait](#)

Fair and Accurate Credit Transactions Act of 2003 (FACT Act) Red Flags Rule

On April 19, 2013, the SEC and CFTC published their joint final Identity Theft Red Flags Rules and guidelines with a compliance date of November 20, 2013. The joint rules (the CFTC rule and the SEC’s Regulation S-ID: Identity Theft Red Flags) and guidelines do not contain requirements that were not already in the FTC Red Flags Rule and guidelines and do not expand the scope of that rule to include new categories of entities that the rule did not already cover. They do, however, contain examples and minor language changes designed to help guide entities within the SEC's enforcement authority in complying with the requirements, which may lead some entities that had not previously complied with the FTC Red Flags Rule to determine that they fall within the scope of the SEC and CFTC joint rules.

FINRA’s Red Flags Rule Web Page includes an updated SEC Identity Theft Red Flags Rule Template that firms may opt to use to assist them in fulfilling their requirements under SEC Regulation S-ID: Identity Theft Red Flags. Regulation S-ID requires specified firms to create a written Identity Theft Prevention Program designed to identify, detect and respond to “red flags”—patterns, practices or specific activities—that could indicate identity theft. Identity theft is a fraud committed or attempted using the identifying information of another person without authority.

- [FINRA Red Flags Rule Web Page](#)
- [A Small Entity Compliance Guide: Identity Theft Red Flags Rules](#)
- [Identity Theft Red Flags Rules \(Joint Final Rules and Guidelines\)](#): Exchange Act Release Nos. 69359, IA-3582, IC-30456 (April 10, 2013) 78 FR 23638 (April 19, 2013)



Resources

FINRA Cybersecurity Topic Page

Given the evolving nature, increasing frequency, and sophistication of cybersecurity attacks – as well as the potential for harm to investors, firms, and the markets – cybersecurity practices are a key focus for FINRA. Visit the link below for more information on related rules, notices, guidance, news and investor education

- [FINRA Topic Page: Cybersecurity](#)

Webinar: [Cybersecurity Considerations for Small Firms](#)

This one-hour free webinar tackles a top priority for small firms: building an effective cybersecurity program with limited resources. Panelists share best practices, with a focus on how small firms can apply the National Institute of Standards and Technology (NIST) framework. The webinar includes a discussion on the following topics.

- Overview of NIST Framework
- The role compliance should play in addressing cyber risks
- Factors for developing a cybersecurity program
- Focus of FINRA examinations
- Considerations for recognizing a cyber-attack and developing a process for response

Note: Access to webinars is limited to FINRA member firms and CRCP graduates.

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DISPUTE RESOLUTION

General

Definition of Non-Public Arbitrator

FINRA's proposed amendments to the definition of non-public arbitrator in the Customer and Industry Codes of Arbitration Procedure have been approved by the SEC. The amended definition provides that a non-public arbitrator is a person who is otherwise qualified to serve as an arbitrator, and is disqualified from service as a public arbitrator under the Codes. The amendments became effective on October 9, 2017.

- [FINRA Regulatory Notice 17-29 \(October 2017\)](#): SEC Approves Amendments to Arbitration Codes to Revise the Definition of Non-Public Arbitrator



Motions to Dismiss In Arbitration

The SEC approved amendments to FINRA Rules 12504 and 13504 (Motions to Dismiss) of the Customer and Industry Codes of Arbitration Procedure (Codes) to add an additional ground for arbitrators to act on motions to dismiss prior to the conclusion of the claimant's case in chief. The new ground provides that arbitrators may act upon a motion to dismiss a party or claim prior to the conclusion of a party's case in chief if the arbitrators determine that the non-moving party previously brought a claim regarding the same dispute against the same party, and the dispute was fully and finally adjudicated on the merits and memorialized in an order, judgment, award or decision. The amendments are effective for motions to dismiss filed on or after January 23, 2017.

- [FINRA Regulatory Notice 17-02 \(January 2017\)](#): SEC Approves Amendments to the Codes of Arbitration Procedure Regarding Motions to Dismiss

Dispute Resolution Party Portal

The SEC approved amendments to the Customer and Industry Codes of Arbitration Procedure to require all parties, except customers who are not represented by an attorney or other person, to use the FINRA Office of Dispute Resolution's Party Portal to file initial statements of claim and to file and serve most pleadings and other documents on FINRA or any other party. FINRA is also amending the Code of Mediation Procedure to permit mediation parties to agree to use the Party Portal to submit and retrieve all documents and other communications. The amendments are effective for all cases filed on or after April 3, 2017.

- [FINRA Regulatory Notice 17-03 \(January 2017\)](#): SEC Approves Amendments to the Customer and Industry Codes of Arbitration Procedure Regarding Required Use of the Dispute Resolution Party Portal.

Arbitration Award Offsets

The SEC has approved FINRA's rule change amending Rule 12904 (Awards) of the Code of Arbitration Procedure for Customer Disputes (Customer Code) and Rule 13904 (Awards) of the Code of Arbitration Procedure for Industry Disputes (Industry Code) to provide that absent specification to the contrary in an award, when arbitrators order opposing parties to make payments to one another, the monetary awards shall offset and the party assessed the larger amount shall pay the net difference. The amendments are effective for arbitration awards rendered on or after October 24, 2016.

- [FINRA Regulatory Notice 16-36 \(September 2016\)](#): SEC Approves Amendments to the Codes of Arbitration Procedure Regarding Award Offsets



Forum Selection Provisions

FINRA reminds member firms that customers have a right to request arbitration at FINRA's arbitration forum at any time and do not forfeit that right under FINRA rules by signing any agreement with a forum selection provision specifying another dispute resolution process or an arbitration venue other than the FINRA arbitration forum. In addition, FINRA reminds member firms that FINRA rules do not permit member firms to require associated persons to waive their right to arbitration under FINRA's rules in a predispute agreement. A member firm's failure to comply with FINRA's rules relating to predispute arbitration agreements with customers or predispute agreements with associated persons, or failure to submit a dispute to FINRA arbitration as required by FINRA's rules, would violate FINRA rules, and member firms may be subject to disciplinary action.

- [FINRA Regulatory Notice 16-25 \(July 2016\)](#): Forum Selection Provisions Involving Customers, Associated Persons and Member Firms

Confidentiality Provisions

FINRA reminds firms it is a violation of FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade) to include confidentiality provisions in settlement agreements or any other documents, including confidentiality stipulations made during a FINRA arbitration proceeding, that prohibit or restrict a customer or any other person from communicating with the SEC, FINRA or any federal or state regulatory authority regarding a possible securities law violation.

- [FINRA Regulatory Notice 14-40 \(October 2014\)](#): Confidentiality Provisions in Settlement Agreements and the Arbitration Discovery Process

Sanctions Guidelines

FINRA is revising its *Sanction Guidelines* to instruct adjudicators in the disciplinary process to consider customer-initiated arbitrations that result in adverse arbitration awards or settlements when assessing sanctions. Thus, when a respondent's disciplinary history, and history of arbitration awards and arbitration settlements together with the violation found in a disciplinary case, form a pattern, the Sanction Guidelines advise that adjudicators should consider imposing more stringent sanctions. The revisions took effect for all complaints filed in FINRA's disciplinary system beginning on June 1, 2018.

- **(New)** [Regulatory Notice 18-17 \(May 2, 2018\)](#): FINRA Revises the Sanction Guidelines



This Notice advises FINRA firms of revisions to FINRA’s Sanction Guidelines. FINRA initiated a periodic review of the Sanction Guidelines through the National Adjudicatory Council (NAC) to ensure that the guidelines reflect recent developments in the disciplinary process, comport with changes in FINRA’s rules, and accurately reflect the levels of sanctions imposed in FINRA disciplinary proceedings. These revisions:

- establish a new factor requiring that the exercise of undue influence over a customer be considered for all violations addressed by the Sanction Guidelines;
- introduce three new Sanction Guidelines: Systemic Supervisory Failures, Short Interest Reporting, and Borrowing From or Lending to Customers;
- present a new factor related to the mitigative effect of regulator or firm-imposed sanctions and corrective action;
- amend 12 sections of the Sanction Guidelines to revise sanctions for more serious FINRA rule violations; and
- harmonize the Sanction Guidelines to the relevant precedent, prior amendments to the Sanction Guidelines and FINRA’s rulebook consolidation process.

The revised Sanction Guidelines are effective immediately and available on FINRA’s website at www.finra.org/Industry/Enforcement/SanctionGuidelines.

- [FINRA Regulatory Notice 17-13 \(April 2017\)](#): FINRA’s NAC Revises the Sanction Guidelines

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DUTIES AND CONFLICTS

Conflicts of Interest

FINRA published a Report on Conflicts of Interest on conflicts of interest in the broker-dealer industry to highlight effective conflicts management practices that may go beyond current regulatory requirements and identify potential problem areas. To help firms analyze the conflicts they face and implement a conflicts management framework appropriate to the size and scope of their business, the Report includes examples of how some large broker-dealer firms address conflicts. These practices—as well as those that are based on FINRA’s experience and analysis—can help firms of all sizes improve their conflicts management practices. Of course, there is no one-size-fits-all framework. Firms need to assess the approach that is most effective for their particular circumstances.



- [FINRA Report on Conflicts of Interest \(October 2013\)](#): FINRA published a Report on Conflicts of Interest in the broker-dealer industry to highlight effective conflicts management practices
- [FINRA Topic Page: Conflicts of Interest](#)

General

Accounts At Other Broker-Dealers and Financial Institutions

The SEC has approved FINRA’s proposed rule change to adopt a new, consolidated rule governing accounts opened or established by associated persons at firms other than the firm at which they are employed. The new rule—FINRA Rule 3210 (Accounts At Other Broker-Dealers and Financial Institutions)—helps facilitate effective oversight of such accounts. Rule 3210 became effective on April 3, 2017.

- [FINRA Regulatory Notice 16-22 \(June 2016\)](#): SEC Approves Consolidated FINRA Rule 3210 (Accounts At Other Broker-Dealers and Financial Institutions)

Know-Your-Customer and Suitability Obligations

FINRA Rule 2090 (Know Your Customer) requires a firm to use “reasonable diligence, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer.” FINRA Rule 2111 (Suitability) requires a firm or associated person to “have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer’s investment profile.”

Additional information about the “know your customer” and suitability obligations—including Notices, Frequently Asked Questions, and a New Account Application Template—can be found on FINRA’s Suitability Web Page.

- [FINRA Topic Page: Suitability](#)

Senior Designations

FINRA reminds firms of their supervisory obligations regarding the use of certifications and designations that imply expertise, certification, training or specialty in advising senior investors (senior designations). This Regulatory Notice 11-52 also outlines findings from a survey of firms and highlights sound



practices used by firms with respect to senior designations. Firms are encouraged to adopt the practices that are outlined in this Notice to strengthen their own supervisory procedures, as appropriate to their business.

- [FINRA Regulatory Notice 11-52 \(November 2011\)](#): FINRA Reminds Firms of Their Obligations Regarding the Supervision of Registered Persons Using Senior Designations
- [Professional Designations Database](#): Use this tool to decode the letters that sometimes follow a financial professional's name and see whether the issuing organization requires continuing education, takes complaints or has a way to confirm who holds the credential.

Supervision

FINRA Supervision Topic Page

This site highlights FINRA rules 3110, 3120, and 3130 on supervisory procedures. It also contains links to related notices, guidance, news, and investor education.

- [FINRA Topic Page: Supervision](#)

(New) Heightened Supervision

FINRA is reminding member firms of their supervisory obligations regarding associated persons with a history of past misconduct that may pose a risk to investors. FINRA Rule 3110 requires member firms to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and FINRA rules. An effective supervisory system plays an essential role in the prevention of sales abuses, and thus enhances investor protection and market integrity. As such, FINRA has long emphasized that member firms have a fundamental obligation to implement a supervisory system that is tailored specifically to the member firm's business and addresses the activities of its associated persons. The notice highlights particular instances where heightened supervision of an associated person may be appropriate. FINRA is encouraging firms to adopt the practices that are outlined in the Notice to strengthen their own supervisory procedures, as appropriate to their business.

- [FINRA Regulatory Notice 18-15 \(April 30, 2018\)](#): Heightened Supervision, Guidance on Implementing Effective Heightened Supervisory Procedures for Associated Persons With a History of Past Misconduct



Political Contributions

FINRA “Pay-To-Play” and Related Rules

The SEC approved FINRA Rules 2030 (Engaging in Distribution and Solicitation Activities with Government Entities) and 4580 (Books and Records Requirements for Government Distribution and Solicitation Activities) to establish “pay-to-play” and related rules regulating the activities of member firms that engage in distribution or solicitation activities for compensation with government entities on behalf of investment advisers. The rules became effective on August 20, 2017.

- [FINRA Regulatory Notice 16-40 \(October 2016\)](#): SEC Approves FINRA “Pay-To-Play” and Related Rules

Political Contributions and Prohibitions on Municipal Securities Business

The amendments to MSRB Rule G-37, on political contributions and prohibitions on municipal securities business, and related amendments to MSRB Rules G-8, on books and records, and G-9, on preservation of records, and Forms G-37 and G-37x became effective on August 17, 2016. Amended Rule G-37 extends the core standards under Rule G-37 to municipal advisors, their political contributions and the provision of municipal advisory business. The amendments are specifically designed to address potential “pay-to-play” practices by municipal advisors consistently with the MSRB’s existing regulation of dealers.

- [MSRB Regulatory Notice 2016-06 \(February 17, 2016\)](#): Amendments to MSRB Rule G-37 on Political Contributions and Prohibitions on Municipal Securities Business and Related Amendments are Deemed Approved Under the Securities Exchange Act of 1934

Effective August 17, 2016, amendments to Rule G-37 extend the core standards under Rule G-37 to municipal advisors, their political contributions and the provision of municipal advisory business. The amendments are designed to address potential “pay-to-play” practices by municipal advisors consistently with the MSRB’s existing regulation of dealers.

- [MSRB Regulatory Notice 2016-18 \(August 4, 2016\)](#): MSRB Files Amendment to Rule G-37 to Clarify its Application to Contributions before August 17, 2016

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EQUITIES

Algorithmic Trading

Qualification and Registration of Associated Persons Relating to Algorithmic Trading

The SEC approved an amendment to NASD Rule 1032(f) that expands the scope of persons required to register as a Securities Trader. Specifically, beginning January 30, 2017, each associated person who is primarily responsible for the design, development or significant modification of an algorithmic trading strategy relating to equity, preferred or convertible debt securities, or who is responsible for the day-to-day supervision or direction of such activities, must pass the Series 57 exam and register as a Securities Trader.

- [FINRA Regulatory Notice 16-21 \(June 2016\)](#): SEC Approves Rule to Require Registration of Associated Persons Involved in the Design, Development or Significant Modification of Algorithmic Trading Strategies

FINRA Topic Page: [Algorithmic Trading](#)

Execution

Best Execution Rule

In light of the increasingly automated market for equity securities and standardized options, and recent advances in trading technology and communications in the fixed income markets, FINRA reiterates the best execution obligations that apply when firms receive, handle, route or execute customer orders in equities, options and fixed income securities. FINRA reminds firms of their obligations, as previously articulated by the SEC and FINRA, to regularly and rigorously examine execution quality likely to be obtained from the different markets trading a security.

- [FINRA Regulatory Notice 15-46 \(November 2015\)](#): Guidance on Best Execution Obligations in Equity, Options and Fixed Income Markets



General

Equity Research

The SEC approved the adoption of FINRA Rule 2241 (Research Analysts and Research Reports), a consolidated rule to address conflicts of interest relating to the publication and distribution of equity research reports. Provisions of Rule 2241 became effective on December 24, 2015.

- [FINRA Regulatory Notice 15-30 \(August 2015\)](#): SEC Approves Consolidated Rule to Address Conflicts of Interest Relating to the Publication and Distribution of Equity Research Reports

Supervision

Equity Trading Initiatives: Supervision and Control Practices for Algorithmic Trading Strategies

As algorithmic trading strategies, including high frequency trading strategies, have grown to compose a substantial portion of activity on U.S. securities markets, the potential for these strategies to adversely impact market and firm stability has likewise grown. Although a reasonable supervision and control program may not foresee every potential failure or prevent every undesirable consequence, in an effort to reduce the future occurrence of such potential issues, FINRA is providing guidance on effective supervision and control practices for member firms and market participants that use algorithmic strategies. These effective practices are focused on five general areas: General Risk Assessment and Response; Software/Code Development and Implementation; Software Testing and System Validation; Trading Systems; and Compliance.

- [FINRA Regulatory Notice 15-09 \(March 2015\)](#): Guidance on Effective Supervision and Control Practices for Firms Engaging in Algorithmic Trading Strategies

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FINANCIAL RESPONSIBILITY RULES FOR BROKER-DEALERS

SEC Financial Responsibility Rules

The SEC staff communicates and issues oral and written interpretations to the financial responsibility and operational rules, which FINRA publishes on the [Interpretations of Financial and Operational Rules](#) page on the FINRA



website. FINRA has published a number of Regulatory Notices announcing updates to the interpretations to reflect the addition, revision or rescission of specified interpretations, including among other things updates to reflect the effectiveness of the new rule amendments.

- [FINRA Regulatory Notice 18-03 \(January 10, 2018\)](#): FINRA Announces Updates of the Interpretations of Financial and Operational Rules

Liquidity Risk Management Practices

Effective liquidity management is a critical control function at broker-dealers and across firms in the financial sector. Failure to manage liquidity has contributed to both individual firm failures and, when widespread, systemic crises. From an investor protection perspective, sound liquidity risk management practices enhance investor protection because they make it more likely that a firm's customers continue to have prompt access to their assets, even in times of stress.

FINRA is providing guidance on effective practices that senior management and risk managers at firms should consider and implement. Regulatory Notice 15-33 is directed to firms that hold inventory positions or clear and carry customer transactions. Other types of broker-dealers may also find the Notice is of value to them when assessing their own liquidity risks.

- [FINRA Regulatory Notice 15-33 \(September 2015\)](#): Guidance on Liquidity Risk Management Practices

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FIXED INCOME

(New) Pricing Disclosure in the Fixed Income Markets

Effective May 14, 2018, members are subject to new disclosure requirements, set out in Rule 2232, for corporate and agency debt securities concerning confirmation disclosure of mark-ups and mark-downs, time of execution, and a security-specific URL for webpages that contain relevant information about the traded securities. The new requirements, approved by the Securities and Exchange Commission in November 2016, will require member firms to disclose additional transaction-related information to retail customers for trades in certain fixed income securities.

- [FINRA Regulatory Notice 17-24 \(July 2017\)](#): FINRA Issues Guidance on the Enhanced Confirmation Disclosure Requirements in Rule 2232 for Corporate and Agency Debt Securities
- [Fixed Income Confirmation Disclosure](#): Frequently Asked Questions



Debt Research

Rule 2242 (Debt Research Analysts and Debt Research Reports) has been amended to clarify the application of the rule in four respects: (1) The consent requirement for institutional debt research reports distributed to non-U.S. investors by non-U.S. affiliates of members; (2) the consent requirement for institutional debt research reports distributed to specified persons for informational purposes unrelated to investing in debt securities; (3) the scope of the institutional debt research report exemption when distributing third-party debt research reports to eligible institutional investors; and (4) the disclosure requirements for debt research analysts in public appearances.

- [Securities Exchange Act Release No. 77963 \(June 1, 2016\), 81 FR 36628 \(June 7, 2016\) \(File No. SR-FINRA-2016-017\)](#): Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend FINRA Rule 2242 (Debt Research Analysts and Debt Research Reports)

The SEC approved the adoption of FINRA Rule 2242 (Debt Research Analysts and Debt Research Reports) to address conflicts of interest relating to the publication and distribution of debt research reports. Rule 2242 became effective on February 22, 2016.

- [FINRA Regulatory Notice 15-31 \(August 2015\)](#): SEC Approves Rule to Address Conflicts of Interest Relating to the Publication and Distribution of Debt Research Reports.

Best Execution Rule

In light of the increasingly automated market for equity securities and standardized options, and recent advances in trading technology and communications in the fixed income markets, FINRA reiterates the best execution obligations that apply when firms receive, handle, route or execute customer orders in equities, options and fixed income securities. FINRA reminds firms of their obligations, as previously articulated by the SEC and FINRA, to regularly and rigorously examine execution quality likely to be obtained from the different markets trading a security.

- [FINRA Regulatory Notice 15-46 \(November 2015\)](#): Guidance on Best Execution Obligations in Equity, Options and Fixed Income Markets

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INVESTMENT BANKING

Funding Portals

FINRA Funding Portal Rules and Related Forms

The SEC approved FINRA's proposed Funding Portal Rules and related forms for SEC-registered funding portals that become FINRA members pursuant to the crowdfunding provisions of Title III of the Jumpstart Our Business Startups (JOBS) Act and the SEC's Regulation Crowdfunding. FINRA's Funding Portal Rules became effective on January 29, 2016. Regulatory Notice 16-06 provides a brief overview of the new Funding Portal Rules and provides information for prospective funding portals that plan to apply for FINRA membership.

- [FINRA Regulatory Notice 16-06 \(January 2016\)](#): SEC Approval of FINRA Funding Portal Rules and Related Forms

FINRA Topic Page: [Funding Portals](#)

Jumpstart Our Business Startups (JOBS) Act

The SEC approved FINRA Rule 4518 (Notification to FINRA in Connection with the JOBS Act) as part of FINRA's proposal to establish the Funding Portal Rules and related forms. Regulatory Notice 16-07 provides further guidance on new Rule 4518, which applies to registered broker-dealer members of FINRA that contemplate acting as intermediaries in transactions involving the offer or sale of securities pursuant to the crowdfunding provisions of Title III of the JOBS Act and the SEC's Regulation Crowdfunding. Under Rule 4518, registered broker-dealer members must provide notification to FINRA in a manner specified in the rule prior to engaging in such activities. FINRA Rule 4518 became effective on January 29, 2016.

- [FINRA Regulatory Notice 16-07 \(January 2016\)](#): SEC Approval of FINRA Rule 4518 (Notification to FINRA in Connection with the JOBS Act)

Private Placements

Exemptions to Facilitate Intrastate and Regional Securities Offerings.

The SEC adopted amendments to modernize Rule 147 under the Securities Act of 1933, which provides a safe harbor for compliance with the Section 3(a)(11) exemption from registration for intrastate securities offerings. The SEC also



established a new intrastate offering exemption under the Securities Act, designated Rule 147A, which will be similar to amended Rule 147, but will have no restriction on offers and will allow issuers to be incorporated or organized outside of the state in which the intrastate offering is conducted provided certain conditions are met. The amendments to Rule 147 and new Rule 147A are designed to facilitate capital formation, including through offerings relying upon intrastate crowdfunding provisions under state securities laws, while maintaining appropriate investor protections and providing state securities regulators with the flexibility to add additional investor protections they deem appropriate for offerings within their state. The SEC also adopted amendments to Rule 504 of Regulation D under the Securities Act to facilitate issuers' capital raising efforts and provide additional investor protections. The amendments to Rule 504 will increase the aggregate amount of securities that may be offered and sold in any twelve-month period from \$1 million to \$5 million and disqualify certain bad actors from participation in Rule 504 offerings. In light of these amendments to Rule 504, the SEC repealed Rule 505.

- [Exemptions to Facilitate Intrastate and Regional Securities Offerings, Release Nos. 33-10238; 33-79161 \(October 26, 2016\), 81 FR 83494 \(November 21, 2016\)](#)

Capital Acquisition Broker (CAB) Rules

The SEC approved FINRA's rule set for firms that meet the definition of "capital acquisition broker" (CAB) and that elect to be governed under this rule set. CABs are firms that engage in a limited range of activities, essentially advising companies and private equity funds on capital raising and corporate restructuring, and acting as placement agents for sales of unregistered securities to institutional investors under limited conditions. Firms that elect to be governed under the CAB rule set are not permitted, among other things, to carry or maintain customer accounts, handle customers' funds or securities, accept customers' trading orders, or engage in proprietary trading or market-making.

The CAB rules became effective on April 14, 2017. In order to provide new CAB applicants with lead time to apply for FINRA membership and obtain the necessary qualifications and registrations, CAB Rules 101-125 became effective on January 3, 2017. FINRA began accepting applications for firms that are not broker-dealers but wish to register as CABs, for existing member firms requesting to elect CAB status, and for CAB associated person registration and qualification, on January 3, 2017.

- [FINRA Regulatory Notice 16-37 \(October 2016\): SEC Approves FINRA's Capital Acquisition Broker Rules](#)



The SEC approved CAB Rule 203 (Engaging in Distribution and Solicitation Activities with Government Entities) and CAB Rule 458 (Books and Records Requirements for Government Distribution and Solicitation Activities) on December 6, 2017. These rules apply established “pay-to-play” and related recordkeeping rules to the activities of member firms that have elected to be governed by the CAB Rules. The rules will allow CABs to engage in distribution or solicitation activities for compensation with government entities on behalf of registered investment advisers. The rules became effective on December 6, 2017.

- FINRA [Regulatory Notice 17-37 \(November 6, 2017\)](#): SEC Approves “Pay-to-Play” and Related Rules for Capital Acquisition Brokers

Contingency Offerings

FINRA’s review of securities offering documents has revealed instances in which broker-dealers have not complied with the contingency offering requirements of Rules 10b-9 and 15c2-4 under the Securities Exchange Act of 1934 (SEA). FINRA is publishing Regulatory Notice 16-08 to provide guidance regarding the requirements of SEA Rules 10b-9 and 15c2-4 and to remind broker-dealers of their responsibility to have procedures reasonably designed to achieve compliance with these rules.

- [FINRA Regulatory Notice 16-08 \(February 2016\)](#): Private Placements and Public Offerings Subject to a Contingency

Electronic Filing Depository

The North American Securities Administrators Association (NASAA) developed the online Electronic Filing Depository (EFD) to enhance the efficiency of the regulatory filing process for certain exempt securities offerings. The EFD online system allow issuers to submit Form D for a Regulation D, Rule 506 offering to state securities regulators and pay related fees. The EFD website also enables the public to search and view free of charge Form D filings made with state securities regulators.

- EFD is available at <https://www.efdnasaa.org>

FINRA Topic Page: [Private Placements](#)



Public Offerings

Contingency Offerings

FINRA's review of securities offering documents has revealed instances in which broker-dealers have not complied with the contingency offering requirements of Rules 10b-9 and 15c2-4 under the Securities Exchange Act of 1934 (SEA). FINRA is publishing Regulatory Notice 16-08 to provide guidance regarding the requirements of SEA Rules 10b-9 and 15c2-4 and to remind broker-dealers of their responsibility to have procedures reasonably designed to achieve compliance with these rules.

- [FINRA Regulatory Notice 16-08 \(February 2016\)](#): Private Placements and Public Offerings Subject to a Contingency

Regulation A Offerings

FINRA issued guidance regarding the FINRA filing requirements and review procedures that apply to firms that participate in Regulation A+ offerings. Specifically, FINRA's Corporate Financing Rules require firms that participate in Regulation A+ offerings to file with FINRA information specified in the rules. FINRA's Communications with the Public Rule and its Suitability Rule also apply to a firm's participation in these offerings. FINRA also reminds firms that communications with the public concerning a Regulation A+ offering of direct participation program securities must be filed with FINRA.

- [FINRA Regulatory Notice 15-32 \(September 2015\)](#): FINRA Filing Requirements and Review of Regulation A Offerings

FINRA Topic Page: [Public Offerings](#)

Supervision

Accounts At Other Broker-Dealers and Financial Institutions

The SEC has approved FINRA's proposed rule change to adopt a new, consolidated rule governing accounts opened or established by associated persons at firms other than the firm at which they are employed. The new rule—FINRA Rule 3210 (Accounts At Other Broker-Dealers and Financial Institutions)—helps facilitate effective oversight of such accounts. Rule 3210 became effective on April 3, 2017.



- [FINRA Regulatory Notice 16-22 \(June 2016\)](#): SEC Approves Consolidated FINRA Rule 3210 (Accounts At Other Broker-Dealers and Financial Institutions)

Insider Trading

FINRA Rule 3110 (Supervision) includes a provision to help firms comply with their obligation under Section 15(g) of the Securities Exchange Act of 1934 to have policies and procedures in place reasonably designed to prevent potential insider trading. Rule 3110(d) requires that firms include in their supervisory procedures a process for reviewing securities transactions in certain types of accounts that is reasonably designed to identify trades that may violate insider trading prohibitions. When implementing these policies and procedures, firms may take a risk-based approach to monitoring transactions that takes into account their specific business models, and firms are encouraged to tailor their policies and procedures to their specific business models.

- [FINRA Regulatory Notice 14-10 \(March 2014\)](#): SEC Approves New Supervision Rules
- [SEC Fast Answers: Insider Trading](#)

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MARGIN

Covered Agency Transactions

In June 2016 the SEC approved FINRA's rule change amending FINRA Rule 4210 to establish margin requirements for Covered Agency Transactions. Covered Agency Transactions include (1) To Be Announced (TBA) transactions, inclusive of adjustable rate mortgage (ARM) transactions, (2) Specified Pool Transactions and (3) transactions in Collateralized Mortgage Obligations (CMOs), issued in conformity with a program of an agency or Government-Sponsored Enterprise (GSE), with forward settlement dates, as discussed more fully in Regulatory Notice 16-31. To assist members in complying with the rule change, FINRA has made available a set of frequently asked questions and guidance. In addition, FINRA is extending, to March 25, 2019, the effective date of the requirements that otherwise would have become effective on June 25, 2018. Members should note that the risk limit determination requirements became effective on December 15, 2016, and are not affected by this Notice.

- **(New)** [FINRA Regulatory Notice 18-18 \(May 2018\)](#): FINRA Extends Effective Date of Margin Requirements for Covered Agency Transactions



- [FINRA Regulatory Notice 17-28 \(September 2017\)](#): FINRA Makes Available Frequently Asked Questions and Guidance and Extends Effective Date of Margin Requirements for Covered Agency Transactions
- [Responses to Frequently Asked Questions Regarding Covered Agency Transactions Under FINRA Rule 4210 \(Updated September 26, 2017\)](#)
- [FINRA Regulatory Notice 16-31 \(August 2016\)](#): SEC Approves Amendments to FINRA Rule 4210 (Margin Requirements) to Establish Margin Requirements for Covered Agency Transactions

FINRA Topic Page: [Margin Accounts and Requirements](#)

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MUNICIPAL SECURITIES

General

(New) MSRB Provides Investor Education Resources on New Mark-Up Disclosure Requirements

On April 4, 2018, to support investor awareness and understanding of information about mark-up and mark-down disclosures that will begin appearing on certain municipal securities trade confirmations, the MSRB made available new and updated investor education resources. Brokers, dealers and municipal securities dealers, particularly retail broker networks, that work with individual investors, may find the documents helpful as they adapt to the new disclosure standard.

- [MSRB Regulatory Notice 2018-06 \(April 4, 2018\)](#): MSRB Provides Investor Education Resources on New Mark-Up Disclosure Requirements

(New) Disclosure Requirements Under MSRB Rule G-15 And Prevailing Market Price Guidance Pursuant To Rule G-30

Effective May 14, 2018, amendments to Municipal Securities Rulemaking Board (MSRB) Rule G-15, on confirmation, clearance and other matters require brokers, dealers and municipal securities dealers to disclose additional information, including their mark-ups and mark-downs to retail customers on certain principal transactions. Amendments to Rule G-30, on prices and commissions, provide guidance on prevailing market price for the purpose of determining mark-ups and other Rule G-30 determinations.



- [MSRB Notice 2018-05 \(March 19, 2018\)](#): MSRB Provides New and Updated FAQs on Confirmation Disclosure and Prevailing Market Price
- [MSRB Regulatory Notice 2017-12 \(May 17, 2017\)](#): MSRB Provides Implementation Guidance on Confirmation Disclosure and Prevailing Market Price
- [MSRB Notice 2016-28 \(November 29, 2016\)](#): New Disclosure Requirements Under MSRB Rule G-15 and Prevailing Market Price Guidance Pursuant to Rule G-30 Effective May 14, 2018

SEC Approves Amendments to the MSRB's Rule on Municipal Fund Security Product Advertisements

The MSRB received approval from the SEC on August 18, 2017, to amend MSRB Rule G-21(e), on municipal fund security product advertisements by brokers, dealers and municipal securities dealers. The amendments will address important regulatory developments and enhance investor protection in connection with municipal fund security product advertisements. The amendments became effective on November 18, 2017.

- [MSRB Regulatory Notice 2017-16 \(August 21, 2017\)](#): SEC Approves Amendments to the MSRB's Rule on Municipal Fund Security Product Advertisements

SEC Approves Amendments to MSRB Rule G-26 on Customer Account Transfers

The MSRB received approval from the SEC on July 27, 2017, to amend MSRB Rule G-26, on customer account transfers, to modernize the rule and promote a uniform customer account transfer standard for all brokers, dealers, municipal securities brokers and municipal securities dealers. The amendments will become effective on January 29, 2018.

- [MSRB Regulatory Notice 2017-15 \(July 31, 2017\)](#): SEC Approves Amendments to MSRB Rule G-26 on Customer Account Transfers

Designation Information Regarding Mandatory Participation in Business Continuity and Disaster Recovery Testing

Regulation Systems Compliance and Integrity (Regulation SCI) was adopted by the SEC and requires the MSRB, as an SCI entity, to, among other things,



require certain brokers, dealers, municipal securities dealers and municipal advisors registered with the MSRB (MSRB Registrants) to participate in the testing of the operation of the MSRB's business continuity and disaster recovery plans, at least once every 12 months. To facilitate this Regulation SCI requirement, the MSRB adopted Rule A-18, on mandatory participation in business continuity and disaster recovery testing, on November 2, 2015. Under Rule A-18, the MSRB designates as Participants in the mandatory functional and performance testing of the operation of the MSRB's BC/DR Plans those MSRB Registrants whose submissions of data to the MSRB, taken as a whole, account for a meaningful percentage of the MSRB's data submission volume required to be provided by MSRB Registrants, measured during an established time period.

- [MSRB Notice 2018-04 \(March 13, 2018\)](#): Designation Information Regarding Mandatory Participation in Business Continuity and Disaster Recovery Testing

Extension of MSRB's Customer Complaint and Related Recordkeeping Rules to Municipal Advisors and the Modernization of Those Rules

On January 13, 2017, the MSRB received approval from the SEC of a proposed rule change consisting of: (i) amendments to MSRB Rule G-10, on delivery of investor brochure; Rule G-8, on books and records to be made by brokers, dealers, and municipal securities dealers and municipal advisors; and Rule G-9, on preservation of records; and (ii) an MSRB notice regarding electronic delivery and receipt of information by municipal advisors under Rule G-32, on disclosures in connection with primary offerings (amendments). The adoption of the amendments represents another milestone in the MSRB's development of a comprehensive regulatory framework for municipal advisors in the exercise of the rulemaking granted to the MSRB by the Dodd-Frank Act. In addition, the adoption of the amendments furthers the MSRB's mandate to protect investors, municipal entities, obligated persons and the public interest by modernizing the MSRB's customer complaint and related recordkeeping rules. The amendments became effective on October 13, 2017.

- [MSRB Regulatory Notice 2017-03 \(January 18, 2017\)](#): SEC Approves Extension of MSRB's Customer Complaint and Related Recordkeeping Rules to Municipal Advisors and the Modernization of Those Rules



Interpretive Notice Regarding Rule G-47, On Time of Trade Disclosure

MSRB Rule G-47, on time of trade disclosure, requires brokers, dealers and municipal securities dealers (collectively, “dealers”) to disclose to their customers, at or prior to the time of trade, all material information known about the transaction, as well as material information about the municipal security that is reasonably accessible to the market. The MSRB has previously provided interpretive guidance, now codified in supplementary material to Rule G-47, on specific types of information that is material where specific scenarios occur and requires time of trade disclosure. Rule G-47, however, emphasizes that this list of specific disclosures is not exhaustive, and that other information may be material to a customer and required to be disclosed. The MSRB published Regulatory Notice 2016-27 to state its interpretation that the fact that a municipal security bears market discount is material information that must be disclosed to a customer under MSRB Rule G-47.

- [MSRB Regulatory Notice 2016-27 \(November 22, 2016\)](#): Interpretive Notice Regarding Rule G-47, On Time of Trade Disclosure

Political Contributions and Prohibitions on Municipal Securities Business

The amendments to MSRB Rule G-37, on political contributions and prohibitions on municipal securities business, and related amendments to MSRB Rules G-8, on books and records, and G-9, on preservation of records, and Forms G-37 and G-37x became effective on August 17, 2016. Amended Rule G-37 extends the core standards under Rule G-37 to municipal advisors, their political contributions and the provision of municipal advisory business. The amendments are specifically designed to address potential “pay-to-play” practices by municipal advisors consistently with the MSRB’s existing regulation of dealers.

- [MSRB Regulatory Notice 2016-06 \(February 17, 2016\)](#): Amendments to MSRB Rule G-37 on Political Contributions and Prohibitions on Municipal Securities Business and Related Amendments are Deemed Approved Under the Securities Exchange Act of 1934

Effective August 17, 2016, the amendments to Rule G-37 extend the core standards under Rule G-37 to municipal advisors, their political contributions and the provision of municipal advisory business. The amendments are designed to address potential “pay-to-play” practices by municipal advisors consistently with the MSRB’s existing regulation of dealers.

- [MSRB Regulatory Notice 2016-18 \(August 4, 2016\)](#): MSRB Files Amendment to Rule G-37 to Clarify its Application to Contributions before August 17, 2016



Direct Purchases and Bank Loans as Alternatives to Public Financing in the Municipal Securities Market

FINRA and the MSRB are providing guidance to remind firms of their obligations in connection with privately placing municipal securities directly with a single purchaser and of the use of bank loans in the municipal securities market.

- [MSRB Regulatory Notice 2016-12 \(April 4, 2016\)](#): Direct Purchases and Bank Loans as Alternatives to Public Financing in the Municipal Securities Market
- [FINRA Regulatory Notice 16-10 \(April 2016\)](#): Direct Purchases and Bank Loans as Alternatives to Public Financing in the Municipal Securities Market

Best Execution Rule

In light of the increasingly automated market for equity securities and standardized options, and recent advances in trading technology and communications in the fixed income markets, FINRA reiterates the best execution obligations that apply when firms receive, handle, route or execute customer orders in equities, options and fixed income securities. FINRA reminds firms of their obligations, as previously articulated by the SEC and FINRA, to regularly and rigorously examine execution quality likely to be obtained from the different markets trading a security.

- [FINRA Regulatory Notice 15-46 \(November 2015\)](#): Guidance on Best Execution Obligations in Equity, Options and Fixed Income Markets

The MSRB published the implementation guidance, which provides answers to frequently asked questions about the best-execution rule and the SMMP exemption. Accordingly, the effective date for Rule G-18 and the related amendments was March 21, 2016.

- [MSRB Regulatory Notice 2015-23 \(November 20, 2015\)](#): MSRB Provides Implementation Guidance on MSRB Rule G-18, on Best Execution
- [Implementation Guidance on MSRB Rule G-18, on Best Execution \(November 20, 2015\)](#)

Registration

MSRB to Streamline Series 52 Exam

The MSRB worked collaboratively with FINRA during development of the Securities Industry Essentials examination to streamline duplicative testing of general knowledge that has traditionally been covered across several representative-level examinations.



- [MSRB Regulatory Notice 2017-21 \(November 8, 2017\)](#): MSRB to Streamline Series 52 Exam Ahead of Release of FINRA Securities Industry Essentials Exam Rule G-3

SEC Approves Continuing Education Requirements for Municipal Advisors

The MSRB received approval from the SEC on May 16, 2017 to amend MSRB Rule G-3, on professional qualification requirements, and amend MSRB Rule G-8, on books and records to be made by brokers, dealers, and municipal securities dealers and municipal advisors, to establish continuing education requirements for municipal advisors and related recordkeeping requirements.

- [MSRB Regulatory Notice 2017-10 \(July 12, 2017\)](#): SEC Approves Continuing Education Requirements for Municipal Advisors

Application of MSRB Rules to Solicitor Municipal Advisors

In MSRB Regulatory Notice 2017-08, the MSRB: (i) summarizes several of the most important MSRB rules applicable to municipal advisors that undertake the solicitation of a municipal entity or obligated person and includes references to various provisions of the Securities Exchange Act of 1934 (the “Exchange Act”) and Exchange Act rules adopted by the SEC that are applicable to the registration of such municipal advisors with the SEC; (ii) sets forth an exhaustive list of all the general MSRB rules applicable to such municipal advisors as well as the key administrative and definitional MSRB rules applicable to them; and (iii) refers to various MSRB and/or SEC resources for additional information on the content summarized herein and, more generally, to select additional resources that may be of interest to all municipal advisors. Because much of the content of this Notice applies to municipal advisors generally, this guidance may be useful to non-solicitor municipal advisors as well.

- [MSRB Regulatory Notice 2017-08 \(May 4, 2017\)](#): Application of MSRB Rules to Solicitor Municipal Advisors

Municipal Advisor Representative Qualification Examination (Series 50)

Municipal advisor firms are reminded of their obligation to ensure that every individual associated with the municipal advisor firm is qualified in accordance with the rules of the MSRB. Pursuant to MSRB Rule G-3, an associated person of a municipal advisor firm who engages in municipal advisory activities on behalf



of the municipal advisor firm is required to be qualified as a “municipal advisor representative” by passing the Municipal Advisor Representative Qualification Examination (Series 50 exam).

- [MSRB Regulatory Notice 2017-09 \(May 8, 2017\)](#): Application of MSRB Rules to Solicitor Municipal Advisors

Reporting

MSRB Rule G-14 and Real-Time Transaction Reporting System

The MSRB amended MSRB Rule G-14 effective July 18, 2016. Rule G-14 requires brokers, dealers and municipal securities dealers to report all executed transactions in most municipal securities to the MSRB’s Real-Time Transaction Reporting System (RTRS) within 15 minutes of the time of trade, with limited exceptions. RTRS serves the dual objectives of price transparency and market surveillance. The MSRB makes transaction data for transparency purposes available to the general public through the Electronic Municipal Market Access (EMMA®) website at no cost, and disseminates such data through paid subscription services to market data vendors, institutional market participants and others that subscribe to the data feed.

- [MSRB Regulatory Notice 2016-19 \(August 9, 2016\)](#): MSRB Provides Guidance on MSRB Rule G-14, on Reports of Sales or Purchases of Municipal Securities
- [MSRB Regulatory Notice 2016-09 \(March 2, 2016\)](#): MSRB Revises Effective Date for Amendments to MSRB Rule G-14, on Transaction Reporting
- [MSRB Regulatory Notice 2015-07 \(May 26, 2015\)](#): SEC Approves Amendments to MSRB Rule G-14 and Real-Time Transaction Reporting System

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MUTUAL FUNDS

FINRA Topic Page: [Mutual Funds](#)

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OPTIONS

General

Submission of Subordination Agreements

In accordance with Appendix D of the Securities Exchange Act of 1934 (“SEA”) Rule 15c3-1, every broker or dealer registered pursuant to SEA Section 15 that enters into a proposed subordination agreement or secured demand note agreement must file such agreements with the firm’s designated examining authority (“DEA”) for review and approval, unless otherwise exempt. Effective April 1, 2016, Trading Permit Holders for whom CBOE or C2 Options Exchange is the Designated Examining Authority (“DEA”) will be required to electronically submit requests for approval of proposed subordination loan agreements and secured demand note agreements, including any renewals or amendments of existing agreements, to CBOE or C2 via the FINRA Firm Gateway platform. This submission method will replace the current submission of subordination agreement approval requests (which is via hardcopy or email to DMFRNotification@cboe.com). CBOE and C2 will no longer accept requests filed in hardcopy or email.

- [CBOE Regulatory Circular RG16-063/C2 Regulatory Circular RG16-017 \(March 29, 2016\): Submission of Subordination Agreements](#)

Supervision

CBOE Rule 6.79 – Floor Broker Practices

Effective May 30, 2015, new CBOE Rule 6.79 replaces CBOE Regulatory Circular RG95-49 (Floor Brokerage Practices). CBOE Rule 6.79 sets forth requirements for floor brokers related to the liquidation or reduction of error account positions, erroneously executed orders, lost or misplaced market orders, legging multi-part orders, print-throughs, stopping orders, and documentation of errors and record keeping requirements. Regulatory Circular RG15-088 highlights particular provisions of CBOE Rule 6.79. Please see CBOE Rule 6.79 and SR-CBOE-2015-030 for a complete description of the requirements of CBOE Rule 6.79.

If moving a client’s position into the floor broker’s error account requires the broker to make a change in Continuous Trade Match (CTM) to the series; quantity; buy or sell; premium price; or the origin code from “C” to any other origin code, the floor broker must follow the procedures set forth in CBOE Rule 6.67 (CBOE Trade Match System) and CBOE Regulatory Circular RG15-072 (Procedures Related to Rule 6.67).



- [CBOE Regulatory Circular RG15-088 \(May 29, 2015\)](#): New Rule 6.79 – Floor Broker Practices

Trading

Prearranged Trades

CBOE restates its policy concerning prearranged trading. Trading Permit Holders are cautioned that any purchase or sale, transaction or series of transactions, coupled with an agreement, arrangement or understanding, directly or indirectly to reverse such transaction, which is not done for a legitimate economic purpose or without subjecting the transactions to market risk, violates CBOE rules and may be inconsistent with various provisions of the SEA and rules thereunder. All transactions must be effected in accordance with applicable trading rules, subject to risk of the market, and reported for dissemination.

- [Cboe Regulatory Circular RG17-188 \(December 27, 2017\)](#): Prearranged Trades

Modified HOSS Opening Procedures and Special Opening Quotation and Settlement Methodology for Volatility Index Option Contracts

CBOE is reissuing this circular in connection with a change to the strategy order cut-off time being made CBOE. The strategy order cut-off time changed from 8:15 a.m. to 8:20 a.m. (Chicago time) on February 8, 2017. This change will apply to all expirations for all volatility index derivatives going forward. This change is reflected in the reissued circular. In addition, other changes have been made throughout this circular.

- [CBOE Regulatory Circular RG17-019 \(February 6, 2017\)](#): Modified HOSS Opening Procedures and Special Opening Quotation and Settlement Methodology for Volatility Index Options Contracts

Change to Strategy Order Cut-Off Time from 8:15 a.m. (CT) to 8:20 a.m. (CT) EFFECTIVE for February 8, 2017 Weekly VIX Derivatives Expiration EFFECTIVE for February 15, 2017 Standard VIX and RVX Derivatives Expiration

CBOE changed the strategy order cut-off time for all CBOE option series used to calculate the settlement values for volatility index derivatives on their expiration dates. Per CBOE Rule 6.2B.01, CBOE changed the strategy order cut off time from 8:15 a.m. (Chicago time) to 8:20 a.m. (Chicago time). This change went into effect for the Wednesday, February 8, 2017 weekly VIX derivatives expiration and went into effect for the February 15, 2017 standard VIX and RVX derivatives



expiration. This change will also apply to all expirations for volatility index derivatives going forward. A strategy order is an order related to positions in, or a trading strategy involving, volatility index options or futures.

- [CBOE Regulatory Circular RG17-006 \(January 19, 2017\)](#): Change to Strategy Order Cut-Off Time from 8:15 a.m. (CT) to 8:20 a.m. (CT) EFFECTIVE for February 8, 2017 Weekly VIX Derivatives Expiration EFFECTIVE for February 15, 2017 Standard VIX and RVX Derivatives Expiration

Best Execution Rule

In light of the increasingly automated market for equity securities and standardized options, and recent advances in trading technology and communications in the fixed income markets, FINRA reiterates the best execution obligations that apply when firms receive, handle, route or execute customer orders in equities, options and fixed income securities. FINRA reminds firms of their obligations, as previously articulated by the SEC and FINRA, to regularly and rigorously examine execution quality likely to be obtained from the different markets trading a security.

- [FINRA Regulatory Notice 15-46 \(November 2015\)](#): Guidance on Best Execution Obligations in Equity, Options and Fixed Income Markets

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REGISTRATION AND DISCLOSURE

Qualifications Exams

Qualification and Registration

The SEC approved a proposed rule change to: (1) adopt consolidated FINRA registration rules; (2) restructure the representative-level qualification examinations by creating a general knowledge examination called the Securities Industry Essentials (SIE) and transforming the representative-level examinations into specialized knowledge examinations; and (3) amend the Continuing Education (CE) requirements. In January 2018, the SEC approved the content outline and selection specifications for the SIE. These changes become effective October 1, 2018.

- [Securities Exchange Act Release No. 82578 \(January 24, 2018\), 83 FR 4375 \(January 30, 2018\) \(File No. SR-FINRA- 2018-002\)](#): Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the New Securities Industry Essentials Examination



- [FINRA Regulatory Notice 17-30 \(October 2017\)](#): SEC Approves Consolidated FINRA Registration Rules, Restructured Representative-Level Qualification Examinations and Changes to Continuing Education Requirements

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REPORTING

Consolidated Audit Trail (CAT)

Rule 613 under the Securities Exchange Act of 1934 requires FINRA and the national securities exchanges to jointly submit a National Market System (NMS) plan detailing how they would develop, implement and maintain a consolidated audit trail that collects and accurately identifies every order, cancellation, modification and trade execution for all exchange-listed equities and options across all U.S. markets. FINRA is working with the exchanges to develop an NMS plan that meets the requirements of Rule 613.

- [FINRA Rule 6800 Series](#): Consolidated Audit Trail Compliance Rule
- Visit [The Consolidated Audit Trail website \(https://www.catnmsplan.com/\)](https://www.catnmsplan.com/) for more information

The National Securities Exchanges and FINRA Issue Joint Guidance on Clock Synchronization and Certification Requirements Under the CAT NMS Plan

On November 15, 2016, the SEC approved the National Market System Plan Governing the Consolidated Audit Trail (Plan). The Plan, as modified by an exemptive order issued by the SEC, includes synchronization and certification requirements with regard to business clocks that capture time in milliseconds.

- [FINRA Regulatory Notice 17-09 \(March 2017\)](#): The National Securities Exchanges and FINRA Issue Joint Guidance on Clock Synchronization and Certification Requirements Under the CAT NMS Plan



Trade Reporting

Temporary Exception to Permit Aggregate Reporting for Certain ATS Transactions in U.S. Treasury Securities

FINRA filed with the SEC a proposed rule change to amend FINRA Rule 6730 (Transaction Reporting) to provide a temporary exception to permit member alternative trading systems (“ATs”) and member subscribers to report aggregate trade information to TRACE for certain transactions in U.S. Treasury Securities.

- **(New)** [FINRA Regulatory Notice 18-09 \(March 7, 2018\)](#): FINRA Updates Designation Criteria to Require Firms Reporting U.S. Treasury Securities to TRACE to Participate in FINRA’s Business Continuity/Disaster Recovery Testing
- [Securities Exchange Act Release No. 81018 \(June 23, 2017\), 81 FR 36628 \(June 7, 2016\) \(File No. SR-FINRA-2017-023\)](#): Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Reporting of Certain ATS Transactions in U.S. Treasury Securities

Expiration Date of FINRA Rule 0180 (Application of Rules to Security-Based Swaps) Extended for Limited Period

The expiration date of FINRA Rule 0180 (Application of Rules to Security-Based Swaps) has been extended to February 12, 2018. FINRA Rule 0180 temporarily limits, with certain exceptions, the application of FINRA rules with respect to security-based swaps.

- [Securities Exchange Act Release No. 79752 \(January 6, 2017\), 82 FR 3824 \(January 12, 2017\) \(File No. SR-FINRA-2017-001\)](#): Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Extend the Expiration Date of FINRA Rule 0180 (Application of Rules to Security-Based Swaps)

Reporting Transactions in U.S. Treasury Securities

Beginning July 10, 2017, FINRA member firms must begin reporting transactions in U.S. Treasury Securities to FINRA via TRACE. Regulatory Notice 16-39 describes the scope of the term “U.S. Treasury securities” for purposes of the new reporting requirement; the specific transactions in U.S. Treasury securities that are reportable and those that are exempt from the reporting requirement; and the information that must be reported to TRACE when reporting transactions in U.S. Treasury securities, including a new trade indicator and two new modifiers. FINRA is publishing technical specifications concurrently with this Notice, which are available on [FINRA’s website](#). At this time, FINRA will not disseminate information on transactions in U.S. Treasury securities and will not



charge transaction-level fees on transactions in U.S. Treasury securities reported to TRACE.

- [FINRA Regulatory Notice 16-39 \(October 2016\)](#): SEC Approves Rule Change to Require Reporting of Transactions in U.S. Treasury Securities to the Trade Reporting and Compliance Engine (TRACE).

Amendments to Disseminate Collateralized Mortgage Obligation (CMO) Transactions and to Reduce the Reporting Time for CMO Transactions

The SEC approved amendments to the Trade Reporting and Compliance Engine (TRACE) rules and dissemination protocols to provide for dissemination of transactions in collateralized mortgage obligations (CMOs), to reduce the time frame for reporting transactions in CMOs executed after issuance, and to simplify the reporting requirements for transactions in CMOs executed prior to issuance. These amendments became effective on March 20, 2017.

- [FINRA Regulatory Notice 16-38 \(October 2016\)](#): SEC Approves Amendments to Disseminate Collateralized Mortgage Obligation (CMO) Transactions and to Reduce the Reporting Time for CMO Transactions

Exemption from Trade Reporting Obligation For Certain Transactions On Alternative Trading Systems

On July 18, 2016, FINRA Rule 6732 (Exemption from Trade Reporting Obligation for Certain Transactions on an Alternative Trading System) became effective. Rule 6732 provides FINRA staff with the authority to grant a member alternative trading system (ATS) an exemption from the TRACE trade reporting obligations of Rule 6730 (Transaction Reporting) for transactions occurring on an ATS that meet specified conditions.

- [FINRA Regulatory Notice 16-15 \(April 2016\)](#): Exemption from Trade Reporting Obligation for Certain Transactions on Alternative Trading Systems

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RESEARCH

FINRA Topic Page: [Research Analysts](#)

FAQs about FINRA's Research Conflict of Interest Rules

- [FINRA Research Rules Frequently Asked Questions \(FAQ\)](#)



Research Analysts

Debt Research

Rule 2242 (Debt Research Analysts and Debt Research Reports) has been amended to clarify the application of the rule in four respects: (1) The consent requirement for institutional debt research reports distributed to non-U.S. investors by non-U.S. affiliates of members; (2) the consent requirement for institutional debt research reports distributed to specified persons for informational purposes unrelated to investing in debt securities; (3) the scope of the institutional debt research report exemption when distributing third-party debt research reports to eligible institutional investors; and (4) the disclosure requirements for debt research analysts in public appearances. The implementation date was July 16, 2016.

- [Securities Exchange Act Release No. 77963 \(June 1, 2016\), 81 FR 36628 \(June 7, 2016\) \(File No. SR-FINRA-2016-017\)](#): Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend FINRA Rule 2242 (Debt Research Analysts and Debt Research Reports)

Supervision

Insider Trading

FINRA Rule 3110 (Supervision) includes a provision to help firms comply with their obligation under Section 15(g) of the Securities Exchange Act of 1934 to have policies and procedures in place reasonably designed to prevent potential insider trading. Rule 3110(d) requires that firms include in their supervisory procedures a process for reviewing securities transactions in certain types of accounts that is reasonably designed to identify trades that may violate insider trading prohibitions. When implementing these policies and procedures, firms may take a risk-based approach to monitoring transactions that takes into account their specific business models, and firms are encouraged to tailor their policies and procedures to their specific business models.

- [FINRA Regulatory Notice 14-10 \(March 2014\)](#): SEC Approves New Supervision Rules
- [SEC Fast Answers: Insider Trading](#)

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SENIOR INVESTORS

SEC Approves Rules Relating To Financial Exploitation Of Seniors

The SEC approved: (1) the adoption of new FINRA Rule 2165 (Financial Exploitation of Specified Adults) to permit members to place temporary holds on disbursements of funds or securities from the accounts of specified customers where there is a reasonable belief of financial exploitation of these customers; and (2) amendments to FINRA Rule 4512 (Customer Account Information) to require members to make reasonable efforts to obtain the name of and contact information for a trusted contact person for a customer's account. New Rule 2165 and the amendments to Rule 4512 became effective on February 5, 2018

- [FINRA Regulatory Notice 17-11 \(March 2017\)](#): SEC Approves Rules Relating to Financial Exploitation of Seniors

NASAA Model Act to Protect Seniors and Vulnerable Adults

In a significant step toward providing much needed protection for seniors and vulnerable adults, NASAA announced that its membership has voted to adopt a model act designed to protect vulnerable adults from financial exploitation. The model, entitled "An Act to Protect Vulnerable Adults from Financial Exploitation," provides new tools to help detect and prevent financial exploitation of vulnerable adults.

- [NASAA Model Statute to Protect Vulnerable Adults](#)
- www.serveourseniors.org

Resources

[FINRA Securities Helpline for Seniors](#): In 2015, FINRA launched the toll-free FINRA Securities Helpline for Seniors® to provide older investors with a supportive place to get assistance from knowledgeable FINRA staff related to concerns they have with their brokerage accounts and investments. Senior investors can call FINRA's new toll-free FINRA Securities Helpline for Seniors to get neutral, knowledgeable assistance with:

- Understanding how to review investment portfolios or account statements;
- Concerns about the handling of a brokerage account; and
- Investor tools and resources from FINRA, including BrokerCheck

1-844-57-HELPS (1-844-574-3577)
Monday – Friday - 9 A.M. To 5 P.M. EST



FINRA Topic Page: [Senior Investors](#)

NASAA Broker-Dealer Section Study of Senior Practices and Procedures, 2016-2017

The Investment Products & Services project group under the direction of the NASAA Broker-Dealer Section Committee conducted a survey of broker-dealer practices and procedures applicable to senior investors. The report summarizes findings from the inquiry. Among the encouraging findings are that virtually all the broker-dealers had both internal processes to identify and internally report suspected diminished capacity or senior financial abuse, and trained their staff on these policies. Some of the findings were concerning however, including that almost half of the respondents did not identify any resource they use to assist their senior clients and only approximately one-third had policies and procedures specifically tailored for senior accounts. NASAA will continue to advocate for greater protection of senior investors and encourages broker-dealers and other financial services firms to review their policies and procedures regarding seniors in light of the findings and recommendations outlined in this report.

- [NASAA Broker-Dealer Section Study of Senior Practices and Procedures](#)

Suitability

Guidance on Firm Responsibilities for Sales of Pension Income Stream Products

Pension income stream products typically involve an up-front lump sum payment to a pensioner in exchange for the rights to the pensioner's future pension income payments. Regulatory Notice 16-12 discusses the characteristics of and investor protection issues presented by pension income stream products, as well as the legal status of these products. In addition, the Notice addresses the responsibilities of firms in supervising the sale of pension income stream products.

- [FINRA Regulatory Notice 16-12 \(April 2016\)](#): FINRA Provides Guidance on Firm Responsibilities for Sales of Pension Income Stream Products

FINRA Policies on the Use of Senior Designations

FINRA published Regulatory Notice 11-52 to remind firms of their supervisory obligations regarding the use of certifications and designations that imply expertise, certification, training or specialty in advising senior investors (senior



designations). The Notice also outlines findings from a survey of firms and highlights sound practices used by firms with respect to senior designations.

- [FINRA Regulatory Notice 11-52 \(November 2011\)](#): FINRA Reminds Firms of Their Obligations Regarding the Supervision of Registered Persons Using Senior Designations

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TRADING

General

Disruptive Quoting and Trading Activity

In December 2016, FINRA implemented two new rule changes regarding disruptive quoting and trading activity. The first rule change adopts new Supplementary Material .03 to Rule 5210 (Publication of Transactions and Quotations) to explicitly define and specifically prohibit for purposes of Rule 5210 two types of quoting and trading activity that are deemed to be disruptive. The first type of activity involves a party entering multiple limit orders on one side of the market that changes the level of supply and demand for the security, entering one or more orders on the opposite side of the market that are subsequently executed, and, following the execution, canceling the original limit orders. The second type of activity consists of a party placing an order inside the national best bid and offer, and then submitting an order on the opposite side of the market to execute against another market participant that joined the new inside market.

The second rule change amends the FINRA procedural rules regarding temporary cease and desist orders (TCDOs), found in the Rule 9800 Series, to create a process for FINRA to issue, on an expedited basis, a permanent cease and desist order against a respondent that engages in a frequent pattern or practice of the disruptive quoting and trading activity in Supplementary Material .03 to Rule 5210.

- [FINRA Regulatory Notice 17-22 \(June 2017\)](#): FINRA Adopts Rules on Disruptive Quoting and Trading Activity and Expedited Proceedings

Stop Orders

FINRA encourages firms to review their practices regarding stop (or stop loss) orders, with an emphasis on educating investors regarding the risks and



benefits of stop orders and special considerations around the use of stop orders during volatile market conditions. To accomplish this, firms should consider, among other things, providing targeted training to registered representatives regarding the risks associated with stop orders and, where appropriate, making alternative recommendations to meet customer objectives. Firms that allow customers to enter stop orders directly online should ensure that they prominently provide clear and comprehensive disclosures to customers at the time of order entry. Firms should also consider implementing systemic safeguards around the use of stop orders.

- [FINRA Regulatory Notice 16-19 \(May 2016\)](#): FINRA Issues Guidance Regarding the Use of Stop Orders During Volatile Market Conditions

Best Execution Rule

In light of the increasingly automated market for equity securities and standardized options, and recent advances in trading technology and communications in the fixed income markets, FINRA reiterates the best execution obligations that apply when firms receive, handle, route or execute customer orders in equities, options and fixed income securities. FINRA reminds firms of their obligations, as previously articulated by the SEC and FINRA, to regularly and rigorously examine execution quality likely to be obtained from the different markets trading a security.

- [FINRA Regulatory Notice 15-46 \(November 2015\)](#): Guidance on Best Execution Obligations in Equity, Options and Fixed Income Markets

SEC Issued an Order Approving the National Market System (NMS) Plan to Implement a Tick Size Pilot Program by the National Securities Exchanges and FINRA

On May 6, 2015, the SEC issued an order approving the NMS Plan to implement a Tick Size Pilot Program by the National Securities Exchanges and FINRA. The order approved the NMS Plan for a two-year period and will officially commence on October 3, 2016. The Tick Size Pilot is a data-driven test to evaluate whether or not widening the tick size for securities of smaller capitalization companies would impact trading, liquidity and market quality of those securities. The pilot will consist of a control group and three test groups, with each test group having approximately 400 securities.

- Visit [FINRA Tick Size Pilot Program](#) for more information



Limit Up/Limit Down Plan Program

On May 31, 2012, the SEC approved the [NMS Plan to Address Extraordinary Market Volatility \(Plan\)](#), which was filed by FINRA and the other SROs and is designed to address the type of sudden price movements that the market experienced on the afternoon of May 6, 2010. The Plan provides for a market-wide limit up and limit down (LULD) mechanism to prevent trades in NMS stocks from occurring outside of specified price bands, coupled with trading pauses to accommodate more fundamental price moves. The Plan is designed, among other things, to protect investors and promote fair and orderly markets.

- [FINRA Alert on Limit Up/Limit Down \(LULD\) Plan](#)
- [FINRA Regulatory Notice 16-26 \(July 2016\)](#): FINRA Adopts Amendments Relating to the Regulation NMS Plans to Address Extraordinary Market Volatility
- FINRA has published [two charts](#) to assist members in identifying the types of transactions that are excluded from the price bands under the LULD Plan and [FAQs](#) to provide guidance on LULD

Supervision

Cross Market Equities Supervision: Potential Manipulation Report

This report assists firms with monitoring their supervision for trading behaviors that may be designed to manipulate the market by displaying exceptions around two behaviors—layering and spoofing—concerns recently highlighted in FINRA’s 2016 Regulatory Examination Priorities Letter.

- [Cross Market Equities Supervision Video](#)

Equity Trading Initiatives: Supervision and Control Practices for Algorithmic Trading Strategies

As algorithmic trading strategies, including high frequency trading strategies, have grown to compose a substantial portion of activity on U.S. securities markets, the potential for these strategies to adversely impact market and firm stability has likewise grown. Although a reasonable supervision and control program may not foresee every potential failure or prevent every undesirable consequence, in an effort to reduce the future occurrence of such potential issues, FINRA is providing guidance on effective supervision and control practices for member firms and market participants that use algorithmic strategies. These effective practices are focused on five general areas: General Risk Assessment and Response; Software/Code Development and Implementation; Software Testing and System Validation; Trading Systems; and Compliance.



- [FINRA Regulatory Notice 15-09 \(March 2015\)](#): Guidance on Effective Supervision and Control Practices for Firms Engaging in Algorithmic Trading Strategies

Insider Trading

FINRA Rule 3110 (Supervision) includes a provision to help firms comply with their obligation under Section 15(g) of the Securities Exchange Act of 1934 to have policies and procedures in place reasonably designed to prevent potential insider trading. Rule 3110(d) requires that firms include in their supervisory procedures a process for reviewing securities transactions in certain types of accounts that is reasonably designed to identify trades that may violate insider trading prohibitions. When implementing these policies and procedures, firms may take a risk-based approach to monitoring transactions that takes into account their specific business models, and firms are encouraged to tailor their policies and procedures to their specific business models.

- [FINRA Regulatory Notice 14-10 \(March 2014\)](#): SEC Approves New Supervision Rules
- [SEC Fast Answers: Insider Trading](#)

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VARIABLE ANNUITIES

Supervision

Pension Income Stream Products

Pension income stream products typically involve an up-front lump sum payment to a pensioner in exchange for the rights to the pensioner's future pension income payments. Regulatory Notice 16-12 discusses the characteristics of and investor protection issues presented by pension income stream products, as well as the legal status of these products. In addition, the Notice addresses the responsibilities of firms in supervising the sale of pension income stream products.

- [FINRA Regulatory Notice 16-12 \(April 2016\)](#): FINRA Provides Guidance on Firm Responsibilities for Sales of Pension Income Stream Products



SEC Issue Investor Alert on Pension or Settlement Income Streams

- [SEC Investor Bulletin: Pension or Settlement Income Streams—What You Need to Know Before Buying or Selling Them](#)

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More Information and Resources

For more information you may visit the cecouncil.com website and/or contact CE Council member organizations:

Regulatory Organization	Website
Chicago Board Options Exchange	www.cboe.com
Chicago Stock Exchange	www.chx.com
Financial Industry Regulatory Authority	www.finra.org
Municipal Securities Rulemaking Board	www.msrb.org
New York Stock Exchange	www.nyse.com
North American Securities Administrators Association	www.nasaa.org
U.S. Securities and Exchange Commission	www.sec.gov