



## Securities Industry Continuing Education Program Firm Element Advisory – Q2 2019

### 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 Annual Risk Monitoring 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 2018 Enforcement Report Based on 2017 Data \(October 10, 2018\)](#): 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](mailto:cecounciladmin@finra.org)



## **ALTERNATIVE INVESTMENTS**

### **Cryptocurrencies and ICOs**

#### **Digital Assets**

FINRA is monitoring developments in the digital asset marketplace and is undertaking efforts to ascertain the extent of FINRA member involvement related to digital assets. To supplement FINRA's efforts to date, FINRA issued this Notice to encourage each firm to promptly notify FINRA if it, or its associated persons or affiliates, currently engages, or intends to engage, in any activities related to digital assets, such as cryptocurrencies and other virtual coins and tokens. In addition, until July 31, 2019, FINRA encourages each firm to keep its Regulatory Coordinator abreast of changes in the event the firm, or its associated persons or affiliates, determines to engage in activities relating to digital assets not previously disclosed. If a firm recently has provided notice to its Regulatory Coordinator in response to a direct request, has provided this information by way of the 2018 Risk Control Assessment Survey, or has submitted a continuing membership application regarding its involvement in activities related to digital assets, FINRA does not request additional notification pursuant to this Notice unless a change has occurred.

- [FINRA Regulatory Notice 18-20 \(July 6, 2018\)](#): FINRA Encourages Firms to Notify FINRA if They Engage in Activities Related to Digital Assets

#### **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. The SEC has issued investor alerts, bulletins and statements on initial coin offerings and cryptocurrency-related investments, including with respect to the marketing of certain offerings and investments by celebrities and others.

- [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

## **General**

### **(New) Amendments to Nasdaq Rules 5705 and 5710 to Adopt a Disclosure Requirement for Certain Securities**

The SEC approved a proposed rule change to amend Nasdaq Rule 5705(b)(1)(B) relating to Index Fund Shares and Nasdaq Rule 5710(d) relating to Linked Securities to require issuers of such Index Fund Shares or Linked Securities to include on each such product's website a statement that the product seeks returns for a single day, and that, due to the compounding of returns, holding periods of longer than one day can result in investment returns that are significantly different than the product's target returns. The disclosure would also direct investors to consult the prospectus for further information on the calculation of the returns and other risks associated with investing in this type of product.

- [Securities Exchange Act Release No. 34-85362 \(March 19, 2019\), 84 FR 11148 \(March 25, 2019\)](#): Order Granting Approval of a Proposed Rule Change, as Modified by Amendment No. 2, to Amend Nasdaq Rules 5705 and 5710 to Adopt a Disclosure Requirement for Certain Securities

### **Alternative Mutual Funds**

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.

- [SEC Investor Bulletin \(February 3, 2017\)](#): 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 in the Notice, 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 the supervision of 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)**

### **(New) FINRA Provides Guidance to Firms Regarding Suspicious Activity Monitoring and Reporting Obligations**

FINRA issued guidance regarding suspicious activity monitoring and reporting obligations under Rule 3310 (Anti-Money Laundering Compliance Program).

- [FINRA Regulatory Notice 19-18 \(May 6, 2019\)](#): FINRA Provides Guidance to Firms Regarding Suspicious Activity Monitoring and Reporting Obligations

### **FINRA Amends Rule 3310 to Conform to FinCEN’s Final Rule on Customer Due Diligence Requirements for Financial Institutions**

FINRA filed for immediate effectiveness amendments to FINRA Rule 3310 (Anti-Money Laundering Compliance Program) to reflect the Financial Crimes



Enforcement Network's (FinCEN) adoption of a final rule on Customer Due Diligence Requirements for Financial Institutions (CDD Rule). The implementation date was May 11, 2018 to align with the compliance date for FinCEN's CDD Rule.

- [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

FINRA filed for immediate effectiveness amendments to Capital Acquisition Broker (CAB) Rule 331 (Anti-Money Laundering Compliance Program) to reflect the Financial Crimes Enforcement Network's (FinCEN) adoption of a final rule on Customer Due Diligence Requirements for Financial Institutions (CDD Rule). The implementation date was November 19, 2018.

- [FINRA Regulatory Notice 18-36 \(October 19, 2018\)](#): FINRA Amends Capital Acquisition Broker Rule 311 to Conform to FinCEN's Final Rule on Customer Due Diligence Requirements for Financial Institutions

### **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). Cboe also published circulars, announcing the CDD Rule and referencing Regulatory Notice 17-40. FinCEN's CDD Rule became effective on July 11, 2016, and member firms were required to be in compliance by May 11, 2018.

- [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
- [CBOE Options Regulatory Circular RG18-004 \(February 14, 2018\)](#): Anti-Money Laundering Compliance Program - Customer Due Diligence Requirements and Filing Requirements for Certain Trading Permit Holders

### **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 provides 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 websites 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](#)

### **(New) BC/DR Testing Under Regulation SCI**

As required by SEC Regulation Systems Compliance and Integrity (Regulation SCI), FINRA in 2015 adopted Rule 4380 requiring member firm participation in business continuity and disaster recovery (BC/DR) testing. The rule authorizes FINRA to designate firms that must participate in FINRA's annual BC/DR test based on established standards, which FINRA first published in Regulatory Notice 15-43 and updated in Regulatory Notice 18-09. This Notice consolidates FINRA's designation criteria, as previously announced in Notices 15-43 and 18-09, without change.

- [FINRA Regulatory Notice 19-15 \(April 19, 2019\)](#): FINRA Publishes Consolidated Criteria to Designate Firms for Mandatory Participation in FINRA's Business Continuity/Disaster Recovery Testing





- [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

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## **COMMUNICATIONS**

### **(New) FINRA Provides Guidance On Customer Communications Related To Departing Registered Representatives**

FINRA has consistently sought to ensure that customers can make a timely and informed choice about where to maintain their assets when their registered representative (i.e., a person registered with the member who has direct contact with customers in the conduct of the member's securities sales) leaves a member firm. Accordingly, FINRA expects that: 1) in the event of a registered representative's departure, the member firm should promptly and clearly communicate to affected customers how their accounts will continue to be serviced; and 2) the firm should provide customers with timely and complete answers, if known, when the customer asks questions about a departing registered representative.

- [FINRA Regulatory Notice 19-10 \(April 5, 2019\)](#): FINRA Provides Guidance on Customer Communications Related to Departing Registered Representatives

### **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 approved amendments to FINRA rules governing communications with the public to revise the filing requirements in Rule 2210 (Communications with the Public) and Rule 2214 (Requirements for the Use of Investment Analysis Tools), and the content and disclosure requirements in 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](#)

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## **CYBERSECURITY**

### **(New) Imposter Websites Impacting Member Firms**

Several member firms have recently notified FINRA that they have been victims of imposter websites—which are sites designed to mimic a firm’s actual website with the end goal of committing financial fraud. This Notice outlines steps firms can take to monitor for imposter websites and what to do if an imposter website is found.

- [FINRA Information Notice \(April 29, 2019\)](#): FINRA Provides Guidance to Firms Regarding Suspicious Activity Monitoring and Reporting Obligations

### **FINRA Warns of Fraudulent Phishing Emails Targeting Member Firms**

FINRA warns member firms to be on the lookout for a fraudulent phishing email that is currently circulating. Brokerage firms reported to FINRA that they have received suspicious emails targeting their compliance personnel. The email appears to be from a legitimate credit union attempting to notify the firm about potential money laundering involving a purported client of the firm. The email directs the recipient to open an attached document—which likely contains a malicious virus or malware designed to obtain unauthorized access to the recipient’s computer network. As a reminder, phishing scams are ever-changing and are designed to infiltrate the computer network of the recipient. Use caution when opening emails from unknown senders and do not open attachments until you verify the sender and information that might be included in the document.

- [FINRA Information Notice \(February 13, 2019\)](#): FINRA Warns of Fraudulent Phishing Emails Targeting Member Firms

### **FINRA Report on Cybersecurity Practices**

This report continues FINRA’s efforts to share information that can help broker-dealer firms further develop their cybersecurity programs. Firms routinely identify cybersecurity as one of their primary operational risks. Similarly, FINRA continues to see problematic cybersecurity practices in its examination and risk



monitoring program. This report presents FINRA’s observations regarding effective practices that firms have implemented to address selected cybersecurity risks while recognizing that there is no one-size-fits-all approach to cybersecurity.

When selecting the topics for this report, FINRA considered the evolving cybersecurity threat landscape, firms’ primary challenges and the most frequent cybersecurity findings from our firm examination program. First, we address how firms have strengthened their cybersecurity controls in branch offices, which is especially important for firms with decentralized business models. Second, we discuss limiting phishing attacks, which remain a top cybersecurity challenge for many firms. Third, we explain the importance of identifying and mitigating insider threats, which are of concern for many firms. Fourth, we describe the elements of a strong penetration testing program. Finally, we share observations regarding establishing and maintaining controls on mobile devices, which have emerged as a significant risk for many firms because of their increasingly widespread use by employees and customers.

- [FINRA Report on Cybersecurity Practices \(December 2018\)](#)

### **FINRA Warns Firms of Regulator Impersonators**

Recently, FINRA has received reports of member firms receiving telephone calls from persons claiming to work for FINRA in an attempt to deceive firms into revealing confidential information. FINRA is notifying firms that these individuals may be impersonators. Firms that receive telephone calls or emails purportedly from someone at FINRA requesting any type of information—confidential or otherwise—should use caution and verify the identity of the caller or sender before providing any information or responding to an email.

- [FINRA Information Notice \(July 13, 2018\)](#): FINRA Warns Firms of Regulator Impersonators

### **SEC Investor Bulletin**

The SEC’s Office of Investor Education and Advocacy issued 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>.

### **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**

### **(New) Enforcement**

#### **(New) FINRA's 529 Plan Share Class Initiative Encourages Firms to Self-Report Potential Violations**

Over the past several years, FINRA has found that some firms have failed to reasonably supervise brokers' recommendations of multi-share class products. FINRA has raised concerns specifically regarding firms' supervision of share-class recommendations to customers of 529 savings plans. FINRA is launching a 529 Plan Share Class Initiative to promote firms' compliance with the rules governing 529 plan recommendations, to promptly remedy potential supervisory and suitability violations related to recommendations that customers of 529 plans buy share classes that are inconsistent with the accounts' investment objectives, and to return money to harmed investors as quickly and efficiently as possible. As described in this Notice, to encourage voluntary reporting under this initiative, FINRA's Department of Enforcement will recommend that FINRA accept favorable settlement terms for firms that self-report these potential violations and provide FINRA with a detailed remediation plan.

- [FINRA Regulatory Notice 19-04 \(January 28, 2019\)](#): FINRA's 529 Plan Share Class Initiative Encourages Firms to Self-Report Potential Violations

#### **FINRA Revises the Sanction Guidelines**

FINRA revised 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.

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



## **General**

### **Simplified Arbitration**

FINRA amended its rules to provide a new option for simplified arbitration. The amendments provide an additional hearing option for parties in arbitration with claims of \$50,000 or less, excluding interest and expenses. The amendments became effective on September 17, 2018.

- [FINRA Regulatory Notice 18-21 \(July 23, 2018\)](#): SEC Approves Amendments to Arbitration Codes to Provide an Additional Hearing Option in Simplified Arbitration

### **Definition of Non-Public Arbitrator**

The SEC approved amendments to the definition of non-public arbitrator in the Customer and Industry Codes of Arbitration Procedure. 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

### **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.

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## **DUTIES AND CONFLICTS**

### **Conflicts of Interest**

#### **FINRA Report on Conflicts of Interest**

In 2013, 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**

#### **(New) Disclosure of Hedging by Employees, Officers and Directors**

The SEC adopted a rule to implement a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rule requires a company to describe any practices or policies it has adopted regarding the ability of its employees (including officers) or directors to purchase financial instruments, or otherwise engage in transactions, that hedge or offset, or are designed to hedge or offset, any decrease in the market value of equity securities granted as compensation, or held directly or indirectly by the employee or director. The new rule requires a company to describe the practices or policies and the categories of persons they affect. If a company does not have any such practices or policies, the company must disclose that fact or state that hedging transactions are generally permitted. The new disclosure is required in a proxy statement or information statement relating to an election of directors. The rule became effective on March 8, 2019.



- [Securities and Exchange Commission Release No. 33-10593 \(December 20, 2018\), 84 FR 2402 \(February 6, 2019\)](#): Disclosure of Hedging by Employees, Officers and Directors

### **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). Regulatory Notice 11-52 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.





## **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

## **Recordkeeping**

### **(New) Custodian of Books and Records**

The Securities and Exchange Commission (SEC) approved a proposed rule change to amend FINRA Rule 4570 (Custodian of Books and Records) to: (1) provide a member firm that is filing a Form BDW (Uniform Request for Broker/Dealer Withdrawal) the option of designating another FINRA member firm as the custodian of its books and records on the form; (2) clarify the obligations of the designated custodian; and (3) require the designated custodian to consent to act in such a capacity. These changes become effective on August 19, 2019.

- [FINRA Regulatory Notice 19-16 \(April 22, 2019\)](#): SEC Approves Amendments to FINRA Rule 4570

### **Third-Party Recordkeeping Services**

This Notice provides firms with information regarding recent guidance issued by SEC staff regarding the use of recordkeeping services provided by third parties to preserve records pursuant to SEA Section 17(a) and SEA Rule 17a-4.

- [FINRA Regulatory Notice 18-31 \(September 14, 2018\)](#): SEC Staff Issues Guidance on Third-Party Recordkeeping Services



## **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](#)

### **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 (Supervision) 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

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## **EQUITIES**

### **Algorithmic Trading**

#### **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 focus 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

**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**

### **(New) Understanding Short Sale Volume Data on FINRA's Website**

This Notice provides information to assist market participants in understanding the short sale volume data published on FINRA's website. FINRA is aware that some market participants, including investors, may occasionally perceive the percentage of short sale volume to be unusually high or inconsistent with reported short interest data. This perception may cause market participants to draw inaccurate conclusions about the level or nature of short selling activity in the relevant security. FINRA is issuing this Notice to further explain the published short sale volume data and provide several key points for market participants to consider when evaluating the data.



- [FINRA Information Notice \(May 10, 2019\)](#): FINRA Provides Guidance to Firms Regarding Suspicious Activity Monitoring and Reporting Obligations

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## **FINANCIAL RESPONSIBILITY RULES FOR BROKER-DEALERS**

### **(Updated) 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 19-11 \(April 9, 2019\)](#): FINRA Announces Update 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**

### **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

### **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](#)

### **Private Placements**

#### **(New) OTC Quotations in Foreign Private Issues**

In consultation with the staff of the SEC, FINRA is issuing this Notice to remind firms of their obligations under Securities Exchange Act (SEA) Rule 15c2-11 and FINRA Rule 6432 (Compliance with the Information Requirements of Rule 15c2-11) regarding quotations in the securities of foreign private issuers that rely on SEA Rule 12g3-2(b). Specifically, we are reminding firms that Rule 15c2-11(a)(4) requires that they make paragraph (a)(4) information reasonably available upon request to any person expressing an interest in a transaction involving the security, such as by providing the requesting person with appropriate instructions regarding how to obtain the information electronically. Firms cannot comply with this requirement by directing customers to an issuer's website if, by its terms, the website restricts access by U.S. persons to the paragraph (a)(4) information.

- [FINRA Regulatory Notice 19-09 \(March 20, 2019\)](#): FINRA Reminds Firms of their Obligations Under SEC Rule 15c2-11(A)(4)

### **Exemptions to Facilitate Intrastate and Regional Securities Offerings.**

The SEC adopted amendments to 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 an intrastate offering exemption under the Securities Act, designated Rule 147A, which is similar to amended Rule 147, but has no restriction on offers and allows issuers to be incorporated or organized outside of the state in which the intrastate offering is conducted provided certain conditions are met. Rules 147 and 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. Rule 504 of Regulation D under the



Securities Act was also amended to facilitate issuers' capital raising efforts and provide additional investor protections. Amended Rule 504 increases the aggregate amount of securities that may be offered and sold in any 12-month period from \$1 million to \$5 million and disqualifies certain bad actors from participation in Rule 504 offerings. In light of amended Rule 504, the SEC repealed Rule 505.

- [Securities and Exchange Commission Release No. 33-10238; 33-79161 \(October 26, 2016\), 81 FR 83494 \(November 21, 2016\)](#): Exemptions to Intrastate and Regional Securities Offerings

### **Capital Acquisition Broker (CAB) 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

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

**FINRA Topic Page:** [Private Placements](#)

## **Public Offerings**

### **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**

### **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](#)
- [Insider Trading "Red Flags" and Filing a Tip with FINRA](#)





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## **MARGIN**

### **(Updated) Covered Agency Transactions**

The SEC approved an amendment to FINRA Rule 4210 to establish margin requirements for Covered Agency Transactions. Covered Agency Transactions include (1) To Be Announced transactions, inclusive of adjustable rate mortgage transactions, (2) Specified Pool Transactions and (3) transactions in Collateralized Mortgage Obligations, issued in conformity with a program of an agency or Government-Sponsored Enterprise, 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, 2020, 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.

- [FINRA Regulatory Notice 19-05 \(February 12, 2019\)](#): 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**

#### **(Updated) Advertising Rule Changes for Dealers and Municipal Advisors**

The MSRB received approval from the SEC on May 7, 2018 to amend MSRB Rule G-21, on advertising by brokers, dealers or municipal securities dealers, and to adopt new MSRB Rule G-40, on advertising by municipal advisors. The SEC also approved a technical amendment to MSRB Rule G-42, on duties of non-solicitor municipal advisors. With these rule changes, as well as the previously announced development of the municipal advisor principal examination (Series 54), the MSRB, in the exercise of authority granted by the Dodd-Frank Wall Street Reform and Consumer Protection Act, has completed the core of its Congressionally mandated comprehensive regulatory framework for municipal advisors.

The effective date for the amendments will be August 23, 2019.

- [MSRB Regulatory Notice 2018-08 \(May 7, 2018\)](#): SEC Approves Advertising Rule Changes for Dealers and Municipal Advisors
- [MSRB Information Notice 2019-07 \(February 26, 2019\)](#): MSRB Establishes Effective Date for Advertising Rules and Provides Social Media Guidance and Related Rule Amendments

The following revised compliance resource is designed to provide practical assistance to municipal advisors with their understanding of Rule G-40's content standards through the analysis of mock advertisements. The MSRB derived the principles discussed in this compliance resource from Rule G-40 and its related rulemaking record, and this compliance resource should be read in conjunction with Rule G-40 and its related guidance. The compliance resource does not create new legal or regulatory requirements or new interpretations of existing requirements. The MSRB does not intend for this compliance resource to be interpreted by municipal advisors or examining authorities as establishing new standards of conduct.

- [MSRB Regulatory Notice 2018-32 \(December 19, 2018\)](#): MSRB Provides Compliance Resource on Application of Content Standards to Advertisements by Municipal Advisors Under MSRB Rule G-40



### **(Updated) Designation Information Regarding Mandatory Participation in Business Continuity and Disaster Recovery Testing**

The MSRB has established criteria for designating Participants for the next mandatory functional and performance testing of the operation of the MSRB's Business Continuity/Disaster Recovery Plans. Such criteria are designed to ensure participation by those MSRB Registrants that the MSRB reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event of the activation of its BC/DR Plans.

- [MSRB Notice 2019-09 \(March 13, 2013\)](#): Designation Information Regarding Mandatory Participation in Business Continuity and Disaster Recovery Testing

### **(Updated) Best Execution Rule**

The MSRB is adopting clarifying amendments to implementation guidance on Rule G-18, on best execution. The Implementation Guidance primarily provides answers to frequently-asked questions (FAQs) about Rule G-18. Since the MSRB's best execution requirements became effective in 2016, some market participants have communicated to the MSRB that the practice of posting the same bid-wanted for a municipal security simultaneously on multiple trading platforms may have harmful effects on dealers, investors and the market as a whole while not necessarily achieving improved execution for customers. While the posting of bid-wanted simultaneously on multiple trading platforms is not prohibited by MSRB rules and may be considered by dealers under prevailing facts and circumstances to be consistent with their best-execution obligations and beneficial to their customers, the MSRB has stated previously, including in the Implementation Guidance, that such simultaneous posting is not required.

- [MSRB Regulatory Notice 2019-05 \(February 7, 2019\)](#): MSRB Amends Implementation Guidance On MSRB Rule G-18, On Best Execution
- [FINRA Regulatory Notice 15-46 \(November 2015\)](#): Guidance on Best Execution Obligations in Equity, Options and Fixed Income Markets

### **Frequently Asked Questions Regarding Use of Municipal Advisory Client Lists and Case Studies Under MSRB Rule G-40**

The MSRB's FAQs described in the Notice below provide further explanation of Rule G-40, particularly with respect to a municipal advisor's use of municipal advisory client lists and case studies. The MSRB derived the principles discussed in these FAQs from Rule G-40 and its related rulemaking record, and these FAQs should be read in conjunction with Rule G-40 and related guidance. These FAQs do not create new legal or regulatory requirements. The MSRB



does not intend for these FAQs to be interpreted by municipal advisors or examining authorities as establishing new standards of conduct.

- [MSRB Regulatory Notice 2018-24 \(September 17, 2018\)](#): MSRB Answers FAQs Regarding Use of Municipal Advisory Client Lists and Case Studies Under MSRB Rule G-40

### **Compliance Advisory for Municipal Advisors**

The MSRB is providing this Compliance Advisory as a compliance resource to assist municipal advisors in their continuing compliance efforts. This Compliance Advisory highlights certain MSRB rules and provides considerations a municipal advisor could use in assessing its own policies and procedures for compliance with the applicable rules. This Compliance Advisory is not designed to address all regulatory obligations applicable to municipal advisors pursuant to each MSRB rule or under other securities laws and regulations (“applicable rules”) or identify an exhaustive list of considerations for ensuring compliance with the applicable rules. This resource should be read in conjunction with the relevant rules and related guidance. It does not create new legal or regulatory requirements, or new interpretations of existing requirements, and should not be interpreted as establishing new standards of conduct.

- [MSRB Regulatory Notice 2018-18 \(August 14, 2018\)](#): Compliance Advisory for Municipal Advisors

### **Frequently Asked Questions Regarding MSRB Rule G-42 and Making Recommendations**

On February 15, 2018, the MSRB sought public input on draft answers to frequently asked questions (FAQs) and related scenarios regarding MSRB Rule G-42, on duties of non-solicitor municipal advisors, and the making of recommendations. The MSRB received eight comment letters and revised the draft FAQs to reflect these comments as well as insight gained from the MSRB’s ongoing engagement with the industry regarding compliance with Rule G-42. [FAQs Regarding MSRB Rule G-42 and Making Recommendations](#), has been published as a compliance resource for municipal advisors, provides further explanation of Rule G-42, particularly with respect to making a recommendation and the obligations for municipal advisors that result therefrom. Access the FAQs and other compliance resources in the Compliance Center on MSRB.org. It should be noted that the FAQs do not create new legal or regulatory requirements, or new interpretations of existing requirements and should not be interpreted by municipal advisors or examining authorities as establishing new standards of conduct.



- [MSRB Regulatory Notice 2018-12 \(June 20, 2018\)](#): MSRB Answers Frequently Asked Questions Regarding MSRB Rule G-42 and Making Recommendations

### **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

### **Disclosure Requirements Under MSRB Rule G-15 And Prevailing Market Price Guidance Pursuant To Rule G-30**

Effective May 14, 2018, amendments to 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. In addition, 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. These amendments enhance transparency for retail investors as to the costs of their transactions in municipal securities and provide them with valuable access to pricing and related information about their municipal securities.

- [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



### **Municipal Fund Security Product Advertisements**

The SEC approved amendments to MSRB Rule G-21(e), on municipal fund security product advertisements by brokers, dealers and municipal securities dealers. The amendments 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

### **Customer Account Transfers**

The SEC approved amendments to 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 became 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

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

The SEC approved: (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



## **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

## **Registration**

### **Amendments to MSRB Rule G-3 to Establish a Municipal Advisor Principal Qualification Examination**

The MSRB recently received approval from the SEC to amend MSRB Rule G-3, on professional qualification requirements, to require municipal advisor principals – those who engage in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons – to pass the new Municipal Advisor Principal Qualification Examination (“Series 54 examination”) to become appropriately qualified as a municipal advisor principal.

The amendments to Rule G-3 also (i) require individuals who cease to be associated with a municipal advisor for two or more years, at any time after having been qualified as a municipal advisor principal, to requalify by examination unless a waiver is granted; (ii) add the Series 54 examination to the list of qualification examinations for which an individual can seek a waiver; and (iii) provide that municipal advisor representatives may function as a principal for



120 calendar days without being qualified with the Series 54 examination. The rule changes became effective on December 20, 2018.

- [MSRB Regulatory Notice 2018-30 \(November 28, 2018\)](#): SEC Approves Amendments to MSRB Rule G-3 to Establish a Municipal Advisor Principal Qualification Examination

The MSRB, in consultation with the MSRB’s Professional Qualification Advisory Committee and in accordance with The Standards for Educational and Psychological Testing (“APA Standard”), developed the Series 54 examination to ensure that a person seeking to qualify as a municipal advisor principal satisfies a specified level of competency by measuring a candidate’s ability to apply the applicable federal securities laws, including MSRB rules, to the municipal advisory activities of a municipal advisor. On December 20, 2018, the MSRB filed the Series 54 examination content outline with the SEC for immediate effectiveness. The Series 54 examination content outline has been developed to assist municipal advisor principal candidates in preparing for the Series 54 examination and sets forth key concepts and rules to be tested on the examination and the percentage of the examination devoted to each topic area.

- [MSRB Regulatory Notice 2018-33 \(December 20, 2018\)](#): MSRB Files Content Outline for the Municipal Advisor Principal Qualification Examination (Series 54)

### **MSRB Revises Content Outlines For Professional Qualifications Exam**

On June 25, 2018, the MSRB filed for immediate effectiveness a proposed rule change with the SEC to revise the content outline and selection specifications for the Municipal Securities Representative Qualification Examination (Series 52 exam) to remove general securities knowledge content as part of the MSRB’s modifications to its professional qualification examination program. Additionally, the MSRB proposed revisions to the Municipal Advisor Representative Qualification Examination (Series 50 exam), Municipal Fund Securities Limited Principal Qualification Examination (Series 51 exam) and the Municipal Securities Principal Qualification Examination (Series 53 exam) to reflect changes to laws, rules and regulations covered by the examinations, as applicable, and to make technical amendments to delete or update subject-matter topics and references.

- [MSRB Regulatory Notice 2018-13 \(June 25, 2018\)](#): MSRB Revises Content Outlines for Professional Qualifications Examinations





### **MSRB Modifies Professional Qualifications Program**

On Friday, June 8, 2018, the MSRB filed a proposed rule change for immediate effectiveness with the SEC to modify its professional qualifications program. The amendments to MSRB Rule G-3 reflect the MSRB's intended plan to revise the Municipal Securities Representative Qualification Examination (Series 52) into a specialized knowledge examination and recognize the FINRA Securities Industry Essentials (SIE) Examination as a prerequisite for the Series 52 examination. The amendments also harmonize certain MSRB professional qualification requirements, under Rule G-3, with FINRA's approved rules restructuring its professional qualification and registration requirements. The amendments to Rule G-3 were filed for immediate effectiveness with an implementation date of October 1, 2018.

- [MSRB Regulatory Notice 2018-11 \(June 11, 2018\)](#): MSRB Modifies Professional Qualifications Program

### **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

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## **MUTUAL FUNDS**

FINRA Topic Page: [Mutual Funds](#)

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## **OPTIONS**

### **Communications with the Public**

#### **Supplement to the Options Disclosure Document**

The SEC approved the October 2018 supplement to the Options Disclosure Document (ODD). The ODD contains general disclosures on the characteristics and risks of trading standardized options. The October 2018 supplement (i) amends and restates in its entirety the April 2015 Supplement, which accommodated foreign index options and certain implied volatility index options; (ii) provides additional contract adjustment disclosures regarding the determination of contract adjustments by OCC rather than adjustment panels and the manner in which certain adjustments may affect an option's value; and (iii) reflects T+2 settlement. As with other supplements to the ODD, this should be read in conjunction with the current ODD, Characteristics and Risks of Standardized Options.

- [FINRA Information Notice \(January 17, 2019\)](#): Supplement to the Options Disclosure Document

### **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 Options Circular RG18-050 \(December 27, 2018\)](#): Prearranged Trades

### **Solicited Transactions**

In sum, Cboe Options Rule 6.9, Solicited Transactions: (i) sets forth priority for solicited transactions on the Exchange; and (ii) prohibits Trading Permit Holders (“TPH”) and associated persons from trading based on knowledge of an imminent undisclosed solicited transaction. This Circular is intended as a quick reference guide. Please refer to the Rule for additional information.

- [Cboe Regulatory Options Circular RG18-028 \(August 24, 2018\)](#): Solicited Transactions

### **Modified HOSS Opening Procedures and Special Opening Quotation and Settlement Methodology**

This regulatory circular is being issued to: (1) update content and a hyperlink to the section describing the narrowed Opening Exchange Prescribed Width (OEPW) and Acceptable Price Range (APR) parameters; and (2) update the section describing the dissemination of Expected Opening Information (EOI) messages published to Cboe Option’s website. Specifically, the time interval for dissemination of EOI messages published to Cboe Option’s website has been reduced from 15 seconds or less to approximately every 6 seconds during the pre-open state. The time interval for dissemination of EOI messages over Cboe Options’ APIs occurs approximately every 5 seconds during the pre-open state. Effective Monday, July 9, 2018, Cboe Options introduced the Cboe Opening Auction Feed which will provide market participants with a view of auction information over a separate multicast market data feed delivered through the Cboe CSM platform.

- [CBOE Options Regulatory Circular RG18-018 \(June 15, 2018\)](#): Modified HOSS Opening Procedures and Special Opening Quotation and Settlement Methodology for Volatility Index Derivatives and Risk Inherent in Settlement Procedure

### **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**

### **Central Registration Depository (CRD)**

#### **Presentation Changes and New Functionality in the Central Registration Depository (CRD®) System**

FINRA is introducing enhancements and presentation changes in the CRD system that relate to the implementation of FINRA's restructured qualification examination program and the adoption of consolidated FINRA registration rules. These changes, effective October 1, 2018, principally affect the Examination Requests and SRO Registrations sections.

- [FINRA Information Notice \(September 24, 2018\)](#): Presentation Changes and New Functionality in the Central Registration Depository (CRD®) System

### **Continuing Education**

#### **Administrative Changes to the Continuing Education Regulatory Element Programs**

Effective December 8, 2018, the content from the S106 and S901 Regulatory Element Continuing Education (CE) Programs will become part of the S101 Regulatory Element CE Program. The S106 and S901 CE Programs will be retired as stand-alone programs. Individuals who previously completed these programs instead will be required to complete the S101 CE Program. The S101 CE Program will include new personalized modules for each of the following representative categories: Investment Company and Variable Contracts Products, Investment Banking, and Research

- [FINRA Information Notice \(October 2, 2018\)](#): Administrative Changes to the Continuing Education Regulatory Element Programs



## **FINRA Requested Comment on Enhancements Under Consideration by the Securities Industry/Regulatory Council on Continuing Education**

FINRA published Regulatory Notice 18-26, seeking comment on enhancements to the Securities Industry Continuing Education Program (CE Program) under consideration by the Securities Industry/Regulatory Council on Continuing Education (CE Council). These enhancements include the transition of the Regulatory Element program to a more focused and shorter learning requirement administered annually. The CE Council is also gathering feedback on the current Firm Element program and supporting resources as well as on the overlap of the Firm Element program with other firm training requirements. The overall goal of the program review is to reflect advances in technology and learning theory while continuing to ensure that registered persons receive timely education on the securities business and the regulatory requirements applicable to their respective functions. In addition, the CE Council is exploring program changes that would allow individuals to maintain their qualification status following the termination of their registrations by completing continuing education in an effort to address the challenges that industry professionals face when attempting to re-enter the industry after an absence. The comment period expired on November 5, 2018.

- [FINRA Regulatory Notice 18-26 \(September 6, 2018\)](#): FINRA Requests Comment on Enhancements Under Consideration by the Securities Industry/Regulatory Council on Continuing Education

## **Qualifications Exams**

### **Test Results Information**

Effective October 1, 2018, FINRA restructured its representative-level qualification examination program. In conjunction with the restructuring, FINRA will no longer provide a total score and a score profile for each major section of the content outline to candidates who pass a qualification examination. FINRA believes that providing such information is unnecessary once a candidate has met the minimum score threshold for passing an examination. However, FINRA will continue to provide a total score and a score profile for each major section of the content outline to a candidate who fails an examination

- [Securities Exchange Act Release No. 84376 \(October 5, 2018\), 83 FR 51720 \(October 12, 2018\) \(File No. SR-FINRA-2018-036\)](#): Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Provision of Test Result Information to Candidates Who Pass a FINRA Qualification Examination



## **Restructured Qualification Examinations and Related Examination Fees**

Effective October 1, 2018, FINRA restructured its representative-level qualification examination program. As part of this restructuring, FINRA has developed the Securities Industry Essentials™ (SIE™) examination and revised several of its representative-level qualification examinations. In addition, FINRA has (1) set the fee for the SIE examination; (2) revised the fees for the representative-level examinations that FINRA is retaining; and (3) revised the administration and delivery fee for the Municipal Securities Representative (Series 52) examination.

- [FINRA Regulatory Notice 18-27 \(September 6, 2018\)](#): Restructured Qualification Examinations and Related Examination Fees

## **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. These changes became effective on October 1, 2018.

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

On January 24, 2018, the SEC announced the immediate effectiveness of the content outline and selection specifications for the SIE examination.

- [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

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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

### **Trade Reporting**

#### **(New) Disclosure of Order Handling Information**

The Commission is extending the compliance date for the recently adopted amendments to Rule 606 of Regulation National Market System (“Regulation NMS”) under the Securities Exchange Act of 1934 (“Exchange Act”), which require additional disclosures by broker-dealers to customers concerning the handling of customer orders. Specifically, the Commission is extending the compliance date for the recently adopted amendments to Rule 606. Following September 30, 2019, broker-dealers must begin to collect the information required by Rules 606(a) and 606(b) as amended. The compliance date remains May 20, 2019 for the amendments to Rule 605. The Commission is extending the compliance date for the recently adopted amendments to Rule 606 in order to give broker-dealers additional time to develop, program, and test for compliance with the new and amended requirements of the rule.

- [Securities and Exchange Commission Release No. 34-85714 \(April 24, 2019\)](#) : Disclosure of Order Handling Information

#### **FINRA Reminds Firms of Their Obligations Regarding Transactions in OTC Equity Securities Quoted Pursuant to a Submitted Form 211**

In consultation with SEC staff, FINRA is reminding members of legal obligations that apply when initiating a quote in an over-the-counter (OTC) security in addition to filing a Form 211.



- [FINRA Regulatory Notice 18-32 \(September 24, 2018\)](#): FINRA Reminds Firms of their Obligations Regarding Transactions in OTC Equity Securities Quoted Pursuant to a Submitted Form 211

### **FINRA Reminds Firms of their Obligations when Effecting OTC Trades in Equity Securities on a Net Basis**

FINRA is issuing this Notice to remind firms of their obligations under the FINRA trade reporting rules and other applicable FINRA and SEC rules when effecting over-the-counter (OTC) trades in equity securities on a “net” basis.

- [FINRA Regulatory Notice 18-29 \(September 12, 2018\)](#): FINRA Reminds Firms of their Obligations when Effecting OTC Trades in Equity Securities on a Net Basis

### **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).

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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**

### **Covered Investment Fund Research Reports**

The SEC adopted a new rule under the Securities Act of 1933 to establish a safe harbor for an unaffiliated broker or dealer participating in a securities offering of a covered investment fund to publish or distribute a covered investment fund research report. If the conditions in the rule are satisfied, the publication or distribution of a covered investment fund research report would be deemed not to be an offer for sale or offer to sell the covered investment fund's securities for purposes of sections 2(a)(10) and 5(c) of the Securities Act of 1933. The SEC also adopted a new rule under the Investment Company Act of 1940 to exclude a covered investment fund research report from the coverage of section 24(b) of the Investment Company Act, except to the extent the research report is otherwise not subject to the content standards in self-regulatory organization rules related to research reports. Finally, the SEC adopted a conforming amendment to rule 101 of Regulation M, and a technical amendment to Form 12b-25.

- [Securities and Exchange Commission Release No. 33-10580 \(November 30, 2018\), 83 FR 641 \(December 13, 2018\)](#): Covered Investment Fund Research Reports

### **Debt Research**

Rule 2242 (Debt Research Analysts and Debt Research Reports) was 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)



## **Equity Research**

FINRA Rule 2241 (Research Analysts and Research Reports) addresses conflicts of interest relating to the publication and distribution of equity research reports.

- [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**

### **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 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. 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](#)
- [Protecting Seniors from Financial Exploitation](#)

### **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](http://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 and 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, 2016-2017](#)

## **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

#### **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



## **(Updated) 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

The Participants filed the Plan to Address Extraordinary Market Volatility (the “Limit Up-Limit Down Plan” or the “Plan”) with the Commission on April 5, 2011 to create a market-wide limit up-limit down mechanism intended to address extraordinary market volatility in NMS Stocks, as defined in Rule 600(b)(47) of Regulation NMS under the Exchange Act. The Plan sets forth procedures that provide for market-wide limit up-limit down requirements to prevent trades in individual NMS Stocks from occurring outside of the specified Price Bands. These limit up-limit down requirements are coupled with Trading Pauses, as defined in Section I(Y) of the Plan, to accommodate more fundamental price moves. In particular, the Participants adopted this Plan to address extraordinary volatility in the securities markets, i.e., significant fluctuations in individual securities’ prices over a short period of time, such as those experienced during the “Flash Crash” on the afternoon of May 6, 2010. The Plan was originally approved on a pilot basis to allow the public, the Participants, and the Commission to assess the operation of the Plan and whether the Plan should be modified prior to consideration of approval on a permanent basis. The Commission recently approved an amendment to the Plan to allow the Plan to operate on a permanent basis.

- [Securities Exchange Act Release No. 85723 \(April 25, 2019\), 84 FR 18618 \(May 1, 2019\) \(File No. SR-NYSENAT-2019-10\)](#): Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 7.11, Limit Up-Limit Down Plan and Trading Pauses in Individual Securities Due to Extraordinary Market Volatility



## **Supervision**

### **ATS Supervision Obligations**

FINRA is issuing this Notice to remind Alternative Trading Systems (ATs) of their supervision obligations. As registered broker-dealers and FINRA members, ATs—like other broker-dealer trading platforms—are required to maintain supervisory systems that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules, including, for example, rules on disruptive or manipulative quoting and trading activity.

- [FINRA Regulatory Notice 18-25 \(August 13, 2018\)](#): FINRA Reminds Alternative Trading Systems of Their Obligations to Supervise Activity on Their Platforms

### **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](http://cecouncil.com) website and/or contact CE Council member organizations:

<b>Regulatory Organization</b>	<b>Website</b>
Cboe Global Markets	<a href="http://www.cboe.com">www.cboe.com</a>
Financial Industry Regulatory Authority	<a href="http://www.finra.org">www.finra.org</a>
Municipal Securities Rulemaking Board	<a href="http://www.msrb.org">www.msrb.org</a>
New York Stock Exchange	<a href="http://www.nyse.com">www.nyse.com</a>
North American Securities Administrators Association	<a href="http://www.nasaa.org">www.nasaa.org</a>
U.S. Securities and Exchange Commission	<a href="http://www.sec.gov">www.sec.gov</a>