



Securities Industry Continuing Education Program Firm Element Advisory – Fall 2015

Introduction

The Securities Industry/Regulatory Council on Continuing Education (Council) publishes the Firm Element Advisory (FEA) semi-annually 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. Firms should, among other things, review current and previous FEAs to determine which topics are relevant for inclusion in their training based on their product offerings, structure and business line(s).

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. A [matrix](#) indicating topic coverage in previous FEAs is available on the Council’s website at www.cecouncil.com.

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's 2015 Regulatory and Examination Priorities Letter:](#)** A letter issued annually by FINRA that highlights new and existing areas of significance to FINRA’s examination program which may be useful when developing educational programs within a firm.
- **[SEC Office of Compliance Inspections and Examinations - Examination Priorities for 2015:](#)** A letter issued annually by the SEC 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:](#)** 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 explains how the market works and how participants can make more informed decisions.

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; or
- Roni Meikle, Director, Continuing Education, FINRA, at (212) 858-4084.



ALTERNATIVE INVESTMENTS

Direct Participation Program and Unlisted REIT Securities

The SEC approved amendments to NASD Rule 2340 (Customer Account Statements) to modify the requirements relating to the inclusion of per share estimated values of direct participation program (DPP) and unlisted real estate investment trust (REIT) securities on account statements. Also, the SEC approved amendments to FINRA Rule 2310 (Direct Participation Programs), which provides that a member may not participate in a DPP or REIT offering unless the general partner or sponsor will disclose a per share estimated value in each annual report. The amendments become effective on April 11, 2016.

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

Alternative Mutual Funds

FINRA issued an Investor Alert on alternative funds to inform investors of the characteristics and risks of these investments. Alternative mutual funds are SEC-registered funds that may hold more non-traditional investments and employ more complex strategies than traditional mutual funds. Alternative funds might invest in assets such as global real estate, commodities, derivatives, leveraged loans, start-up companies and unlisted securities that offer exposure beyond traditional stocks, bonds and cash. In addition to the usual market and investment specific risks of traditional mutual funds, alternative funds may carry additional risks from the strategies they use. These strategies may target specific returns or benchmarks, and seek to mitigate or provide exposure to asset classes and risks.

- [FINRA Investor Alert \(June 2013\)](#): Alternative Funds Are Not Your Typical Mutual Funds



Supervision of Complex Products

FINRA published guidance to firms about supervisory controls for complex products, which may include a security or investment strategy with novel, complicated or intricate derivative-like features. This may include, but is not limited to, products such as structured notes, inverse or leveraged exchange-traded funds, hedge funds and securitized products, including asset-backed securities. Regulators have expressed concern about complex products because the intricacy of these products may impair the ability of investors to understand how the products will perform over a variety of time periods and in differing market environments, and can lead to inappropriate recommendations and marketing.

- [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 Regulatory Notice 12-03 \(January 2012\)](#): Heightened Supervision of Complex Products
- Heightened Supervision of Complex Products (Part 1)
[Listen Now/Download](#) | 7 min. 50 sec.
- Heightened Supervision of Complex Products (Part 2)
[Listen Now/Download](#) | 11 min. 15 sec.

ANTI-MONEY LAUNDERING

Anti-Money Laundering (AML) Compliance

Firms must maintain current written AML compliance programs and provide ongoing training to appropriate personnel. Information and guidance relating to AML rules, regulations and compliance are available from a number of sources, such as the following:

- [FINRA Industry Issues: Anti-Money Laundering](#)



AML Template

FINRA’s AML Template for Small Firms reflects FINRA Rule 3310 (Anti-Money Laundering Compliance Program). FINRA also provides a three-part podcast series that guides firms through the process of setting up AML compliance and supervisory procedures.

- [AML Template for Small Firms](#)
- Anti-Money Laundering Template (Part 1)
[Listen Now/Download](#) | 11 min. 45 sec.
- Anti-Money Laundering Template (Part 2)
[Listen Now/Download](#) | 10 min. 35 sec.
- Anti-Money Laundering Template (Part 3)
[Listen Now/Download](#) | 10 min. 42 sec.

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 \(June 20, 2012\)](#)

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 Guidance](#)



- [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 maintains a SAR Alert Message Line that securities firms can use to voluntarily report the filing of a SAR that may require the SEC's immediate attention. Placing a call to the SEC's SAR Alert Message Line does not alleviate a firm's obligation to file a SAR or notify an appropriate law enforcement authority.

- [SAR Alert Message Line](#)

BUSINESS CONTINUITY

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 Industry Issues: Business Continuity Planning](#)

A podcast describes the FINRA Small Introducing Firm Business Continuity Planning Template and details updates that were made to reflect the adoption of FINRA Rule 4370 (Business Continuity Plans and Emergency Contact Information).

- [FINRA Small Introducing Firm Business Continuity Planning Template](#)
- FINRA Business Continuity Planning Template
[Listen Now/Download](#) | 7 min. 30 sec.

FINRA, the SEC and CFTC issued a joint advisory on business continuity planning to encourage firms to review their business continuity plans and to



provide best practices to help improve responses to, and to reduce recovery time after, significant large-scale events.

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

COMMUNICATIONS WITH THE PUBLIC

***(Updated)* FINRA Provides Guidance on Rules Governing Communications with the Public**

In April 2014, FINRA launched a retrospective review of its communications with the public rules to assess their effectiveness and efficiency. In December 2014, FINRA published a report on the assessment phase of the review. The report concluded that, while the rules have met their intended investor protection objectives, they could benefit from some updating to better align the investor protection benefits and the economic impacts. To this end, FINRA staff recommended a combination of rule proposals, guidance and administrative measures. Pursuant to these recommendations, FINRA has published additional questions and answers on the Advertising Regulation page on the FINRA website. These questions and answers supplement previously published guidance.

- [FINRA Regulatory Notice 15-17 \(May 2015\)](#): Guidance on Rules Governing Communications With the Public
- [FINRA Regulatory Notice 13-03 \(January 2013\)](#): FINRA Provides Guidance on New Rules Governing Communications With the Public

These two podcasts discuss the communication categories and content standards in FINRA Rule 2210 (Communications with the Public).

- Communications with the Public Consolidated Rule – Part 1
[Listen Now/Download](#) | 6 min. 35 sec
- Communications with the Public Consolidated Rule – Part 2
[Listen Now/Download](#) | 5 min. 55 sec



FINRA Rule 2210 Excludes Research Reports on Exchange-Listed Securities from Filing Requirements

The SEC approved amendments to Rule 2210 (Communications with the Public) that exclude from Rule 2210's filing requirements research reports concerning only securities listed on a national securities exchange, other than research reports which must be filed pursuant to Section 24(b) of the Investment Company Act of 1940, and clarify that free writing prospectuses that are exempt from filing with the SEC are not subject to Rule 2210's filing or content standards. The amendments became effective on July 11, 2014.

- [**FINRA Regulatory Notice 14-30 \(July 2014\)**](#): SEC Approves Amendments to FINRA Rule 2210 to Exclude Research Reports on Exchange-Listed Securities From Filing Requirements and Clarify the Standards Applicable to Free Writing Prospectuses

Advertising Regulation Issues

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

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

These podcasts discuss the guidance in the *Notice*.

- Communications with the Public: Real Estate Investment Programs
[Listen/Download Now](#) | 11 min. 8 sec.
- Communications with the Public Consolidated Rule – Part 1
[Listen/Download Now](#) | 6 min. 35 sec.

Social Networking Websites and Business Communications

FINRA offers a podcast on how FINRA Rule 2210, which became effective in 2013, applies to social media and personal electronic devices such as smartphones.

- Electronic Communications with the Public – Part 2



[Listen Now/Download](#) | 6 min. 9 sec.

FINRA issued *Regulatory Notice 11-39* to provide guidance to firms on how FINRA's rules apply to business communications through social media sites and other new technologies, including personal devices. The guidance covers recordkeeping, suitability, communications with the public, supervision and other compliance concerns.

- [FINRA Regulatory Notice 11-39 \(August 2011\)](#): Guidance on Social Networking Websites and Business Communications

CORPORATE FINANCE

FINRA updated the form that firms must use to file offering documents and information pursuant to FINRA Rules 5122 (Private Placements of Securities Issued by Members) and 5123 (Private Placements of Securities).

- [FINRA Regulatory Notice 13-26 \(August 2013\)](#): FINRA Updates Form for Filing Private Placements of Securities Pursuant to FINRA Rules 5122 and 5123

Corporate Financing Rule

The SEC approved amendments to FINRA Rule 5110 (Corporate Financing Rule – Underwriting Terms and Arrangements) to expand the circumstances in which termination fees and rights of first refusal are permissible; exempt from the filing requirements certain collective investment vehicles that are not registered as investment companies; and make clarifying, non-substantive changes regarding documents filed through FINRA's electronic filing system. The amendments became effective on May 15, 2014.

- [FINRA Regulatory Notice 14-22 \(May 2014\)](#): SEC Approves Amendments to FINRA Rule 5110 to Permit Termination Fees and Rights of First Refusal; Provide an Exemption From the Filing Requirements for Certain Collective Investment Vehicles; and Clarify the Electronic Filing Requirement



New Issue Allocations and Distributions

The SEC approved amendments to FINRA Rule 5131 (New Issue Allocations and Distributions) to provide a limited exception to facilitate firm compliance when allocating shares of a new issue to the accounts of certain unaffiliated private funds. The amendments became effective on February 3, 2014.

- [**FINRA Regulatory Notice 13-43 \(December 2013\)**](#): SEC Approves a Limited Exception From FINRA Rule 5131(b) to Permit Firms to Rely Upon a Written Representation from Certain Unaffiliated Private Funds

CUSTOMER ACCOUNTS

Extended Hours Trading Risk Disclosure

FINRA reminds firms of their obligations under FINRA Rule 2265 (Extended Hours Trading Risk Disclosure) to disclose to a customer the material risks of extended hours trading. This disclosure should include the risks described in the Model Extended Hours Trading Risk Disclosure Statement in Rule 2265 as well as any additional disclosure as necessary to address product-specific or other specific needs.

- [**FINRA Regulatory Notice 14-54 \(December 2014\)**](#): FINRA Reminds Firms of Extended Hours Trading Disclosures

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

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

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



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

On April 19, 2013, the SEC and CFTC published their joint final Identity Theft Red Flags Rules and guidelines with a compliance date of November 20, 2013. The joint rules (the CFTC rule and the SEC’s Regulation S-ID: Identity Theft Red Flags) and guidelines do not contain requirements that were not already in the FTC Red Flags Rule and guidelines and do not expand the scope of that rule to include new categories of entities that the rule did not already cover. They do, however, contain examples and minor language changes designed to help guide entities within the SEC's enforcement authority in complying with the requirements, which may lead some entities that had not previously complied with the FTC Red Flags Rule to determine that they fall within the scope of the SEC and CFTC joint rules. FINRA’s Red Flags Rule Web Page includes an updated SEC Identity Theft Red Flags Rule Template that firms may opt to use to assist them in fulfilling their requirements under SEC Regulation S-ID: Identity Theft Red Flags. Regulation S-ID requires specified firms to create a written Identity Theft Prevention Program designed to identify, detect and respond to “red flags”—patterns, practices or specific activities—that could indicate identity theft. Identity theft is a fraud committed or attempted using the identifying information of another person without authority.

- [FINRA Red Flags Rule Web Page](#)
- FTC’s Red Flags Rule Template
[Listen Now/Download](#) | 7 min. 29 sec.
- [SEC Small Entity Compliance Guide](#)
- [Identity Theft Red Flags Rules \(Joint Final Rules and Guidelines\)](#)
(Exchange Act Release Nos. 69359, IA-3582, IC-30456 (April 10, 2013) 78 FR 23638 (April 19, 2013))

Rollovers to Individual Retirement Accounts

FINRA issued this Notice to remind firms of their responsibilities when (1) recommending a rollover or transfer of assets in an employer-sponsored retirement plan to an Individual Retirement Account (IRA) or (2) marketing IRAs and associated services. In particular, the Notice addresses firms’ recommendations to participants in employer-sponsored 401(k) retirement plans



who terminate their employment and must determine how to invest their plan assets.

- [FINRA Regulatory Notice 13-45 \(December 2013\)](#): FINRA Reminds Firms of Their Responsibilities Concerning IRA Rollovers
- [The IRA Rollover: 10 Tips to Making a Sound Decision](#)

Disclosure of Fees in Communications Concerning Retail Brokerage Accounts and Individual Retirement Accounts

FINRA issued guidance to firms on communications with the public concerning the fees associated with retail brokerage accounts and IRAs.

- [FINRA Regulatory Notice 13-23 \(July 2013\)](#): FINRA Provides Guidance on Disclosure of Fees in Communications Concerning Retail Brokerage Accounts and Individual Retirement Accounts

This podcast discusses the guidance from the *Notice*.

- Communications with the Public: Retail and IRA Fee Disclosure
[Listen/Download Now](#) | 4 min. 58 sec.

E-mailed Instructions to Transmit or Withdraw Assets From Customer Accounts

FINRA issued *Regulatory Notice 12-05* to recommend that firms reassess their specific policies and procedures for accepting and verifying instructions to withdraw or transfer customer funds that are transmitted via email or other electronic means, as well as firms' overall policies and procedures in this area. This guidance responds to reports of incidents in which firms have wired customer funds to third-party accounts based on instructions received from customers' email accounts that had been compromised by third parties. Typically, the perpetrators of these fraudulent schemes email brokerage firms from customers' personal email accounts with instructions to wire funds to an account, often overseas, controlled by the perpetrator. The instructions may be accompanied or followed by fraudulent letters of authorization also emailed from compromised email accounts. These incidents highlight some of the risks associated with accepting instructions to transmit or withdraw funds via email.



- [FINRA Regulatory Notice 12-05 \(January 2012\)](#): Verification of Emailed Instructions to Transmit or Withdraw Assets From Customer Accounts

***(New)* CYBERSECURITY**

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

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

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

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

- [FINRA Report on Cybersecurity Practices \(February 2015\)](#): This report presents an approach to cybersecurity grounded in risk management to address cybersecurity threats. It identifies principles and effective practices for firms to consider, while recognizing that there is no one-size-fits-all approach to cybersecurity.



DISPUTE RESOLUTION

***(New)* Amendments to the Codes of Arbitration Procedure to Increase the Fees Assessed for Late Cancellation or Postponement of a Hearing**

The Code of Arbitration Procedure for Customer Disputes (Customer Code) and the Code of Arbitration Procedure for Industry Disputes (Industry Code) govern the payments that FINRA makes to its arbitrators for the services they provide to FINRA's dispute resolution forum, as well as the fees assessed to the parties for arbitration proceedings. FINRA has amended Rules 12214(a), 12601(b)(2), 13214(a) and 13601(b)(2) to require that if one or more parties request a postponement or cancellation within 10 days before a scheduled hearing session and the arbitrators grant the request, the party or parties making the request would pay a late cancellation fee of \$600 per arbitrator. The amendments are effective for arbitration cases filed on or after July 6, 2015. The extended cancellation period and the increased late cancellation fee do not apply to parties whose cases were filed prior to the effective date.

- [**FINRA Regulatory Notice 15-21 \(June 2015\)**](#): SEC Approves Amendments to the Codes of Arbitration Procedure to Increase the Fees Assessed for Late Cancellation or Postponement of a Hearing

***(New)* Amendments to Arbitration Codes to Revise the Definitions of Non-Public and Public Arbitrator**

The SEC approved amendments to the definitions of non-public arbitrator and public arbitrator in the codes. The amended definitions provide, among other matters, that persons who worked in the financial industry for any duration during their careers will always be classified as non-public arbitrators, and persons who represent investors or the financial industry as a significant part of their business will also be classified as non-public, but may become public arbitrators after a cooling-off period. The amendments also reorganize the definitions to make them easier for arbitrator applicants and parties, among others, to determine the correct arbitrator classification. The amendments became effective on June 26, 2015.

- [**FINRA Regulatory Notice 15-18 \(May 2015\)**](#): SEC Approves Amendments to Arbitration Codes to Revise the Definitions of Non-Public and Public Arbitrator



Confidentiality Provisions in Settlement Agreements and the Arbitration Discovery Process

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

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

Amendments to the Arbitration Codes to Expand Arbitrators' Authority to Make Referrals During an Arbitration Proceeding

The SEC approved amendments to the Codes to permit arbitrators to make a referral, during an arbitration, of any matter or conduct that has come to the arbitrator's attention during a hearing, which the arbitrator has reason to believe poses a serious threat whether ongoing or imminent, that is likely to harm investors unless immediate action is taken. The amendments became effective on October 27, 2014.

- [FINRA Regulatory Notice 14-42 \(October 2014\)](#): SEC Approves Amendments to the Arbitration Codes to Expand Arbitrators' Authority to Make Referrals During an Arbitration Proceeding

Amendments to Codes of Arbitration Procedure to Require Redaction of Personal Confidential Information From Documents Filed with FINRA Dispute Resolution

The SEC approved amendments to the Codes to provide that any document that a party files with FINRA that contains an individual's Social Security number, taxpayer identification number or financial account number must be redacted to include only the last four digits of any of these numbers. The amendments apply only to documents filed with FINRA. They do not apply to documents that parties exchange with each other or submit to the arbitrators at a hearing on the merits.



Also, the amendments do not apply to cases administered under the Simplified Arbitration rules. The amendments became effective on July 28, 2014.

- [FINRA Regulatory Notice 14-27 \(June 2014\)](#): SEC Approves Amendments to Codes of Arbitration Procedure to Require Redaction of Personal Confidential Information from Documents Filed With FINRA Dispute Resolution

Prohibited Conditions Relating to Expungement of Customer Dispute Information

The SEC approved FINRA Rule 2081 (Prohibited Conditions Relating to Expungement of Customer Dispute Information) to prohibit member firms and associated persons from conditioning or seeking to condition settlement of a dispute with a customer on, or to otherwise compensate the customer for, the customer's agreement to consent to, or not to oppose, the firm's or associated person's request to expunge such customer dispute information from the Central Registration Depository (CRD[®]). The rule became effective on July 30, 2014.

- [FINRA Regulatory Notice 14-31 \(July 2014\)](#): SEC Approves FINRA Rule 2081 Regarding Prohibited Conditions Relating to Expungement of Customer Dispute Information

Expungement of Information from CRD

FINRA Rules 12805 and 13805, which cover the expungement of customer dispute information under FINRA Rule 2080 (Obtaining an Order of Expungement of Customer Dispute Information from the CRD System), establish procedures that arbitrators must follow before recommending expungement of information related to arbitration cases from a broker's CRD record. The procedures are intended to ensure that arbitrators recommend expungement only when they find and document one of the narrow grounds specified in FINRA Rule 2080. In October 2013, FINRA published expanded expungement guidance to arbitrators and parties as a reminder of the criteria for recommending expungement of customer dispute information. The guidance provides arbitrators with best practice tools to use, in addition to the requirements outlined in FINRA Rules 12805, 13805, 2080 and 2081, when considering expungement requests. FINRA periodically updates this guidance, which was recently updated in 2015.

- [Notice to Arbitrators and Parties on Expanded Expungement Guidance](#)



***(New)* EQUITY and DEBT RESEARCH**

Equity Research

The SEC approved the adoption of FINRA Rule 2241 (Research Analysts and Research Reports), a consolidated rule to address conflicts of interest relating to the publication and distribution of equity research reports. Provisions of Rule 2241 become effective either on September 25, 2015, or December 24, 2015.

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

Debt Research

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

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

FAQs About FINRA's Research Conflict of Interest Rules

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

***(Updated)* FINANCIAL RESPONSIBILITY RULES FOR BROKER-DEALERS**

SEC's Financial Responsibility Rule Amendments

In July 2013, the SEC adopted amendments to the net capital, customer protection, books and records, and notification rules and amended the annual reporting and audit requirements under Securities Exchange Act (SEA) Rule 17a-5. Among other things, the amendments establish a new Form Custody that all registered broker-dealers must file at specified times with their designated examining authority. Since the amendments were adopted, the SEC has issued a



number of pronouncements, including, in addition to the original Adopting Releases, a temporary exemptive Order, no-action letters, Frequently Asked Questions (FAQs) and updated Interpretations of the Financial and Operational Rules, as announced in FINRA *Regulatory Notices*, as discussed below.

The SEC's Adopting Releases for the rule amendments are available at:

- [**SEC Adopting Release: Financial Responsibility Rules for Broker-Dealers \(Exchange Act Release No. 70072\) \(amending SEA Rules 15c3-1, 15c3-1a, 15c3-3, 15c3-3a, 17a-3, 17a-4 and 17a-11\)**](#)
- [**SEC Adopting Release: Broker-Dealer Reports \(Exchange Act Release No. 70073\) \(amending SEA Rules 17a-5 and 17a-11 and adopting Form Custody\)**](#)

The SEC issued a Temporary Exemptive Order, in effect until March 3, 2014, as to specified requirements under the new rule amendments, available at:

- [**Order Providing Broker-Dealers a Temporary Exemption from the Requirements of Certain New Amendments to the Financial Responsibility Rules for Broker-Dealers under the SEA \(Exchange Act Release No. 70701\)**](#)

The SEC staff issued no-action letters extending specified relief with respect to new requirements under SEA Rule 15c3-3, available at:

- [**Re: Certain Amendments to Rule 15c3-3 \(February 5, 2015\) \(extending until September 30, 2015 specified relief that otherwise would sunset on March 3, 2015\)**](#)
- [**Re: Broker-Dealers Holding Cash in a Reserve Account at a Non-Affiliated U.S. Branch of a Foreign Bank under Rule 15c3-3 \(February 26, 2014\)**](#)

In connection with the rule amendments, the SEC staff issued two sets of FAQs, available at:

- [**Frequently Asked Questions Concerning the Amendments to Certain Broker-Dealer Financial Responsibility Rules, Division of Trading and Markets \(March 6, 2014\)**](#)



- [Frequently Asked Questions Concerning the July 30, 2013 Amendments to the Broker-Dealer Financial Reporting Rule, Division of Trading and Markets \(April 4, 2014\)](#)

***(Updated)* FINRA Announces Updates of the Interpretations of Financial and Operational 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.

- ***(New)* [FINRA Regulatory Notice 15-25 \(June 2015\)](#)**: FINRA Announces Updates of the Interpretations of Financial and Operational Rules
- [FINRA Regulatory Notice 14-38 \(October 2014\)](#): FINRA Announces Updates of the Interpretations of Financial and Operational Rules
- [FINRA Regulatory Notice 14-25 \(June 2014\)](#): FINRA Announces Updates of the Interpretations of Financial and Operational Rules
- [FINRA Regulatory Notice 14-12 \(March 2014\)](#): FINRA Announces Updates of the Interpretations of Financial and Operational Rules
- [FINRA Regulatory Notice 14-06 \(February 2014\)](#): FINRA Announces Updates of the Interpretations of Financial and Operational Rules
- [FINRA Regulatory Notice 13-44 \(December 2013\)](#): FINRA Announces Updates of the Interpretations of Financial and Operational Rules



FINRA System Updates

FINRA updated the Regulatory Extension (REX) system to enable firms to file extension of time requests relating to new SEA Rule 15c3-3(d)(4) as adopted by the SEC in 2013:

- [FINRA Regulatory Notice 14-13 \(March 2014\)](#): Extension of Time Requests Relating to New SEA Rule 15c3-3(d)(4)

In July 2013, the SEC amended paragraph (f)(2) of SEA Rule 17a-5 to revise the statement regarding identification of a broker-dealer's independent public accountant that broker-dealers must file with the SEC and FINRA, as specified in the rule. FINRA has made available a set of FAQs and a new template for members to comply with Rule 17a-5(f)(2) as amended:

- [FINRA Regulatory Notice 14-39 \(October 8, 2014\)](#): New Template Available on FINRA Firm Gateway for Compliance With SEA Rule 17a-5(f)(2) (Statement Regarding Independent Public Accountant)

FINRA Financial Responsibility Rule Amendments Resource Page

For the convenience of firms, FINRA has created on its website a resource page designed to compile key FINRA and SEC materials relating to the SEC's financial responsibility rule amendments and their implementation.

- [SEC's Financial Responsibility Rule Amendments Resource Page](#)

(New) Guidance on 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

Consolidated FINRA Financial and Operational Rules

The SEC approved consolidated FINRA Rules 4314 (Securities Loans and Borrowings), 4330 (Customer Protection – Permissible Use of Customers’ Securities) and 4340 (Callable Securities) governing securities loans and borrowings, permissible use of customers’ securities and callable securities. The rules are based in part on, and replace provisions of the NYSE and NASD rules and include new provisions. The rules went into effect on May 1, 2014, except that the deadline for notification to FINRA of existing programs under Rule 4330.06 was May 30, 2014 and the effective date for Rule 4330(b)(2)(B) was October 28, 2014.

- [FINRA Regulatory Notice 14-05 \(February 2014\)](#): SEC Approves Consolidated FINRA Rules 4314 (Securities Loans and Borrowings), 4330 (Customer Protection – Permissible Use of Customers’ Securities) and 4340 (Callable Securities)

MARGIN AND MARGIN ACCOUNTS

Options and Margin Requirements

The SEC approved amendments to treat over-the-counter (OTC) options cleared by The Options Clearing Corporation (OCC) as conventional options for purposes of FINRA Rule 2360 (Options) and as listed options for purposes of FINRA Rule 4210 (Margin Requirements). Accordingly, OTC options cleared by the OCC will be considered conventional options for purposes of position limit and reporting requirements and delivery of certain disclosure documents. In addition, the OTC options will be considered listed options for purposes of margin requirements, including maintenance margin requirements and portfolio margin requirements. The effective date was November 7, 2013.



- [**FINRA Regulatory Notice 13-39 \(November 2013\)**](#): SEC Approves Amendments to FINRA Rule 2360 (Options) and FINRA Rule 4210 (Margin Requirements) in Connection With OTC Options Cleared by the OCC

(Updated) **MUNICIPAL SECURITIES**

(New) **MSRB Files Content Outline for Municipal Advisor Representative Qualification Examination (Series 50)**

Earlier this year, the SEC approved amendments to MSRB Rule G-3, on professional qualification requirements, and related rules which created professional qualification standards for municipal advisors. These standards included the establishment of qualification examination requirements for municipal advisor representative and municipal advisor principal candidates. To qualify as either a municipal advisor representative or municipal advisor principal, an individual must pass the Municipal Advisor Representative Qualification Examination (Series 50). The examination requirement is intended to protect municipal entities, obligated persons and the integrity of the municipal market by requiring municipal advisory professionals to possess the general knowledge necessary to be sufficiently qualified to perform municipal advisory activities.

On April 22, 2015, the MSRB filed the Series 50 examination content outline with the SEC for immediate effectiveness. The Series 50 examination content outline sets forth the topic areas that will be covered in the Series 50 examination in order to measure a candidate's general knowledge of the municipal advisory industry, as well as the regulatory requirements, including MSRB rules, SEC rules, rule interpretations and other federal law, applicable to municipal advisory activities. The examination will be available on a date to be announced in 2016.

- [**MSRB Regulatory Notice 2015-06 \(April 2015\)**](#): MSRB Files Content Outline for Municipal Advisor Representative Qualification Examination (Series 50)
- [**MSRB Regulatory Notice 2015-04 \(March 2015\)**](#): MSRB to Amend Rules to Create Professional Qualification Standards for Municipal Advisors



(New) Amendments to MSRB Rule G-14 and Real-Time Transaction Reporting System

On May 22, 2015, the SEC approved amendments to Rule G-14, on transaction reporting, and the Real-Time Transaction Reporting System (RTRS) information system and subscription service. The amendments, which are effective May 23, 2016, enhance the post-trade price transparency information provided through RTRS by: (1) expanding the application of the existing list offering price and takedown indicator to cases involving distribution participant dealers and takedown transactions that are not at a discount from the list offering price; (2) eliminating the requirement for dealers to report yield on customer trade reports and, instead, enabling the MSRB to calculate and disseminate yield on customer trades; (3) establishing a new indicator for customer trades involving non-transaction-based compensation arrangements; and (4) establishing a new indicator for alternative trading system transactions.

- [MSRB Regulatory Notice 2015-07 \(May 2015\)](#): SEC Approves Amendments to MSRB Rule G-14 and Real-Time Transaction Reporting System

(New) Bank Loan Disclosure Advisory

In January 2015, the MSRB published a market advisory to alert municipal market participants of the importance of voluntary disclosure of bank loans. The MSRB stated that as part of its charge to promote a fair and efficient municipal securities market, it is aware that the use of bank loans and direct-purchase debt as financing alternatives to public offerings in the municipal securities market for funding capital improvement projects or refunding outstanding bonds is increasing. The MSRB is concerned that a bank loan could impair the rights of existing bondholders, including its impact on the seniority status of existing bondholders, or its impact on the credit or liquidity profile of an issuer. The MSRB believes that informing the market of the incurrence of a bank loan and its terms is beneficial to the continued fairness and efficiency of the municipal securities market.

The MSRB previously issued *Notices 2011-37* and *2011-52* regarding bank loans which discussed, among other things, that certain financings that are called “bank loans” may, in fact, be municipal securities.



- [MSRB Regulatory Notice 2015-03 \(January 2015\)](#): Bank Loan Disclosure Market Advisory
- [MSRB Notice 2011-37 \(August 2011\)](#): Financial Advisors, Private Placements, and Bank Loans
- [MSRB Notice 2011-52 \(September 2011\)](#): Potential Applicability of MSRB Rules to Certain “Direct Purchases” and “Bank Loans”

***(New)* Guidance Relating to Firm Short Positions and Fails-to-Receive in Municipal Securities**

FINRA issued *Regulatory Notice 15-27* to remind firms engaging in municipal securities transactions that their written supervisory procedures should identify the process for detecting, resolving and preventing the consequences of firm short positions and fails-to-receive in municipal securities, as well as the controls for ensuring that communications with customers regarding municipal securities transactions, including the tax status of interest payments, are not false or misleading. FINRA examinations have found that, as a result of trading errors and inadequate firm controls, some customers who purchased tax-exempt municipal securities have been paid substitute interest, which is not tax-exempt under the Internal Revenue Code.

- [FINRA Regulatory Notice 15-27 \(July 2015\)](#): Guidance Relating to Firm Short Positions and Fails-to-Receive in Municipal Securities

***(Updated)* MSRB Rule G-18 on Best Execution of Transactions in Municipal Securities and Related Amendments to Exempt Transactions with Sophisticated Municipal Market Professionals**

The SEC approved MSRB Rule G-18, the first explicit best-execution rule for transactions in municipal securities. The MSRB also received approval of related amendments to MSRB Rule G-48, on transactions with sophisticated municipal market professionals (SMMPs), and MSRB Rule D-15, on the definition of an SMMP. The rule amendments were to become effective on December 7, 2015. The MSRB has revised the effective date of the rule amendments to 120 days from the date of publication by the MSRB of implementation guidance on the rule changes, but no later than April 29, 2016. Upon implementation of the guidance, the MSRB will announce the resulting specific effective date.



- [**MSRB Regulatory Notice 2014-22 \(December 2014\):**](#) SEC Approves MSRB Rule G-18 on Best Execution of Transactions in Municipal Securities and Related Amendments to Exempt Transactions with Sophisticated Municipal Market Professionals
- [**MSRB Regulatory Notice 2015-14 \(September 2014\):**](#) MSRB Revises Effective Date for MSRB Rule G-18, on Best Execution of Transactions in Municipal Securities, and Related Rule Amendments

Amendments to MSRB Rule G-3 Regarding Continuing Education

The SEC approved amendments to MSRB Rule G-3, on professional qualification requirements, to require certain persons registered with brokers, dealers and municipal securities dealers to participate in annual firm training on municipal securities matters. The rule became effective on January 1, 2015, and dealers must complete the training by December 31, 2015, and each year thereafter.

- [**MSRB Regulatory Notice 2014-17 \(October 2014\):**](#) SEC Approves Amendments to MSRB Rule G-3 regarding Continuing Education

MSRB Rule G-44 on Supervisory and Compliance Obligations of Municipal Advisors, and Amendments to MSRB Rules G-8 and G-9

The SEC approved the first dedicated rule for municipal advisors, MSRB Rule G-44, on supervisory and compliance obligations of municipal advisors, and related amendments to MSRB Rule G-8, on books and records to be made by brokers, dealers and municipal securities dealers, and MSRB Rule G-9, on preservation of records. The rule amendments became effective on April 23, 2015, except for Rule G-44(d), which will become effective on April 23, 2016.

- [**MSRB Regulatory Notice 2014-19 \(October 2014\):**](#) SEC Approves MSRB Rule G-44 on Supervisory and Compliance Obligations of Municipal Advisors, and Amendments to MSRB Rules G-8 and G-9



Amendments to MSRB Rule G-3 on Professional Qualification Requirements

The SEC approved amendments to MSRB Rule G-3 on professional qualification requirements. The amendments revise MSRB Rule G-3(a) to limit the scope of permitted activities of a limited representative—investment company and variable contracts products to sales to and purchases from customers of municipal fund securities. In addition, the amendments eliminate the Financial and Operations Principal (FINOP) classification, qualification and numerical requirements in MSRB Rule G-3(d). The amendments also clarify in Supplementary Material .01 that the term “sales” as used in Rule G-3 includes the solicitation of sales of municipal securities. The amendments became effective on September 30, 2014.

- [MSRB Regulatory Notice 2014-13 \(August 2014\)](#): SEC Approves Amendments to MSRB Rule G-3 on Professional Qualification Requirements

MSRB Fair Pricing Rule

MSRB Rule G-30, on prices and commissions, has been amended to codify existing guidance which was previously stated under several rules into a single fair-pricing rule. The consolidated fair-pricing rule preserves the substance of dealers’ existing fair pricing obligations. The rule amendments became effective on July 7, 2014.

- [MSRB Regulatory Notice 2014-11 \(May 2014\)](#): MSRB to Consolidate Dealers’ Fair-Pricing Obligations into MSRB Rule G-30

MSRB Registration

MSRB registrants, including broker-dealers and municipal advisors, are reminded that revised MSRB Rule A-12 was implemented in May 2014 as a single registration rule, combining certain requirements of former Rules A-12, A-15, and G-40 as well as existing Rule G-14, and establishing new Form A-12. Firms are required to provide information for several new contact persons in addition to a primary regulatory contact (*i.e.*, master account administrator, billing contact, compliance contact and primary data quality contact) on Form A-12. Firms are reminded that, similar to FINRA Rule 4517, MSRB Rule A-12 requires MSRB registrants to review, update and affirm the information on Form A-12 during the first 17 business days of each calendar year. Rule A-12 also imposes a late fee on



regulated entities that fail to pay MSRB assessments (such as annual registration fees, underwriting and other fees required by Rule A-13) in a timely manner.

- [MSRB Regulatory Notice 2014-05 \(February 27, 2014\)](#): SEC Approves New Consolidated Registration Rule and Registration Form for Dealers and Municipal Advisors

(Updated) **OPTIONS**

(New) **Extended Trading Hours Session Pre-Open Order Entry Time Extension**

The Chicago Board Options Exchange (CBOE) announced that beginning July 28, 2015, pre-open order entry availability for the Extended Trading Hours (ETH) session would begin at 4 p.m. on the previous trading day for Tuesday through Friday ETH sessions. The trading hours for the ETH session were not affected by this change.

- [CBOE Regulatory Circular RG15-103 \(July 2015\)](#): Extended Trading Hours (ETH) Session Pre-Open Order Entry Time Extension

(New) **Exchange Liability**

CBOE and C2 Options Exchange (C2) submitted rule filings to amend CBOE and C2 rules governing exchange liability and payments to Trading Permit Holders (TPHs) in connection with certain types of losses that TPHs may allege arose out of business conducted on or through the exchange or in connection with the use of the exchange's facilities.

Among other things, CBOE Rule 6.7 (Exchange Liability Disclaimers and Limitations) and C2 Rule 6.42 (Disclaimers and Limitations) have been amended to establish: (i) a minimum threshold amount for all compensation requests and (ii) notification and submission deadlines for compensation requests. The proposed changes became effective on July 1, 2015.

- [CBOE Regulatory Circular RG15-096/C2 Regulatory Circular RG15-027 \(June 2015\)](#): Exchange Liability



(New) Amended Order Ticket Requirements for Complex Orders With More Than 12 Legs

CBOE Rule 6.53.02 requires a complex order of 12 legs or less (one leg of which may be for an underlying security or security future, as applicable) to be entered on a single order ticket at time of systemization. CBOE Rule 24.20.01 similarly requires that an SPX Combo Order of 12 legs or less to be entered on a single order ticket at time of systemization. In accordance with CBOE Rules 6.53.02 and 24.20.01, CBOE has determined that it will permit complex orders and SPX Combo Orders of more than 12 legs to be split across multiple order tickets provided that the TPH representing the order:

- includes 12 legs on one of the order tickets (*e.g.*, a 13-leg order cannot have 7 legs on one ticket and 6 legs on another ticket; rather, one ticket must have 12 legs and the other ticket must have 1 leg); and
- identifies for CBOE the order tickets that are part of the same complex order in the following form and manner: TPHs must identify for CBOE each related order ticket by completing the 12+ Leg Order Submission Form (located at <https://www.cboe.org/members/GeneralInfo/>) and emailing it to 12legs@cboe.com by 12:00 pm Central Time on the next trading day following order entry.

As previously announced, mandatory compliance with the aforementioned order ticket and submission form requirements went into effect beginning for trade date June 1, 2015.

- **[CBOE Regulatory Circular RG15-092 \(June 2015\)](#)**: Amended Order Ticket Requirements for Complex Orders with More than 12 Legs (*CBOE Regulatory Circular RG15-092 updates Regulatory Circular RG15-067*)

(New) CBOE Rule 6.79 – Floor Broker Practices

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



and SR-CBOE-2015-030 for a complete description of the requirements of CBOE Rule 6.79. If moving a client's position into the floor broker's error account requires the broker to make a change in Continuous Trade Match (CTM) to the series; quantity; buy or sell; premium price; or the origin code from "C" to any other origin code, the floor broker must follow the procedures set forth in CBOE Rule 6.67 (CBOE Trade Match System) and *CBOE Regulatory Circular RG15-072* (Procedures Related to Rule 6.67).

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

***(Updated)* Trade Nullification and Adjustment of Options Transactions Including Obvious Errors**

Effective May 8, 2015, CBOE Rule 6.25 will be replaced in its entirety by revised Rule 6.25 (See SR-CBOE-2015-039). *RG15-074* highlights particular provisions of revised Rule 6.25. Please see revised CBOE Rule 6.25 and SR-CBOE-2015-039 for a complete description of the requirements of Rule 6.25.

Unless otherwise directed by the CBOE Help Desk, TPHs should not update a trade record in the CTM system pursuant to CBOE Rule 6.25. TPHs directed by the help desk to change a trade record in CTM pursuant to CBOE Rule 6.25 do not need to follow the procedures set forth in CBOE Rule 6.67 or *CBOE Regulatory Circular RG15-072*. TPHs have the option to use the CBOE Change Notification Form (located at <https://www.cboe.org/members/GeneralInfo/>) to notify CBOE of a mutually agreed nullification or price adjustment.

- [**CBOE Regulatory Circular RG15-074 \(May 2015\):**](#) Rule 6.25 - Nullification and Adjustment of Options Transactions Including Obvious Errors (On May 8, 2015, *CBOE Regulatory Circular RG15-074* replaced *CBOE Regulatory Circular RG14-141*)

***(Updated)* Tied to Stock Order Marking and Reporting Requirements**

The SEC approved the adoption of CBOE Rules 6.53(y), 6.77(e) and 15.2A that require each TPH to, on the business day following order execution date, report to the CBOE certain information regarding the executed stock or convertible security legs of Qualified Contingent Cross orders, stock-options orders and other Tied to Stock Orders that the TPH executed on CBOE that trading day.



CBOE Regulatory Circular RG15-056 previously announced the implementation date for the tied to stock marking requirement as July 1, 2015 (see also SR-CBOE-2015-004). That circular also announced the postponement of the reporting requirement for tied to stock orders under CBOE Rule 15.2A. *CBOE Regulatory Circular RG15-093* (i) confirms the July 1, 2015 implementation date of the tied to stock marking requirement only with respect to orders sent to CBOE for non-electronic processing (*i.e.*, orders received and systematized by floor brokers handling orders on the CBOE trading floor), (ii) delays for six to 18 months the implementation date of the tied to stock marking requirement with respect to all other orders (*i.e.*, orders submitted to the Exchange for electronic processing), and (iii) confirms that the implementation date for the reporting requirement has been delayed 12 to 18 months (except for Qualified Contingent Cross orders).

- [**CBOE Regulatory Circular RG14-171 \(December 2014\):**](#) Tied to Stock Order Marking and Reporting Requirements
- [**CBOE Regulatory Circular RG15-018 \(February 2015\):**](#) Delayed Implementation of Tied to Stock Order Marking and Reporting Requirements
- [**CBOE Regulatory Circular RG15-056 \(April 2015\):**](#) Tied to Stock Orders New Implementation Date for Order Marking Requirement Proposed Postponement of the Implementation of Reporting Requirement (This circular updates RG15-018)
- [**CBOE Regulatory Circular RG15-093 \(June 2015\):**](#) Updates to CBOE Rules 6.53(y) and 15.2A and TPH Information Session (This circular updates RG15-056)

(Updated) Prearranged Trades

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

- [**CBOE Regulatory Circular RG15-111 \(August 2015\):**](#) Prearranged Trades



30-Day Implementation Period for Margin Increases for Volatility Index Options

The SEC approved CBOE's rule filing to amend certain margin rules for volatility index options. TPHs and Clearing TPHs had to comply with the amended margin requirement no later than July 25, 2014.

- [CBOE Regulatory Circular RG14-101 \(June 2014\)](#): 30-Day Implementation Period for Margin Increases for Volatility Index Options

Notification to the CBOE of Disciplinary Action

CBOE issued updated guidance to remind TPHs to promptly notify the CBOE in writing of any disciplinary action taken against the TPH or its associated persons by any national securities exchange or association, clearing corporation, commodity futures market or government regulatory body. CBOE Rule 4.9 requires a TPH to promptly notify the CBOE in writing of any internal disciplinary action taken by the TPH against any of its associated persons involving a suspension, termination, withholding of commissions or imposition of fines in excess of \$2,500 or any other significant limitation on activities.

- [CBOE Regulatory Circular RG13-073 \(May 2013\)](#): Requirement to Provide Notification to the Exchange of Disciplinary Action

Standard Monthly Option Expiration Date Moved From Saturday to Friday

In connection with the OCC's effort to transition standard option monthly expiration processing from Saturday to Friday (*see CBOE Regulatory Circular RG12-135*), CBOE and C2 adopted a definition of "expiration date." Unless separately defined elsewhere in CBOE or C2's Rules, the term "expiration date" now means: (i) in the case of such an option expiring prior to February 1, 2015, the Saturday immediately following the third Friday of the expiration month of such option contract; and (ii) in the case of such an option expiring on or after February 1, 2015, the third Friday of the expiration month of such option contract, unless designated as "Grandfathered," or if such Friday is a day on which the exchange on which such option is listed is not open for business, the preceding day on which such exchange is open for business.



Effective July 17, 2014, FINRA amended FINRA Rule 2360(b)(23) regarding procedures for expiring standardized equity options to harmonize its rules with the rules of the OCC and the options exchanges regarding the change to the expiration date for most standardized option contracts to the third Friday of the expiration month instead of the Saturday following the third Friday.

- [Securities Exchange Act Release No. 72484 \(June 26, 2014\), 79 FR 37822 \(July 2, 2014\) \(Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Options Exercise Procedures\); File No. SR-FINRA-2014-027](#)

Transactions Below \$1 Per Option Contract

The SEC issued a notice of filing and immediate effectiveness of a rule change by CBOE to extend a pilot procedure in CBOE Rule 6.54 (Accommodation Liquidations (Cabinet Trades)) that allows transactions to take place in open outcry at a price of at least \$0 but less than \$1 per contract through January 5, 2016.

- [Securities Exchange Act Release No. 73974 \(December 31, 2014\), 80 FR 911 \(January 7, 2015\) \(Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 6.54\); File No. SR-CBOE-2014-093](#)

PRIVATE PLACEMENTS

Electronic Filing Depository

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

- [EFD is available at <https://www.efdnasaa.org>](#)



PUBLIC OFFERINGS

***(New)* FINRA Filing Requirements and Review of 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 DPP securities must be filed with FINRA.

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

REGISTRATION AND DISCLOSURE

***(New)* Web Delivery of the Continuing Education Regulatory Element Program**

The SEC approved amendments to FINRA rules to provide a Web-based delivery method for completing the Regulatory Element of the Continuing Education (CE) requirements, and to establish the related fee. The amendments became effective on October 1, 2015. The CE requirements under FINRA Rule 1250 (Continuing Education Requirements) include a Regulatory Element and a Firm Element. The Regulatory Element applies to registered persons and consists of periodic computer-based training on regulatory, compliance, ethical and supervisory subjects, and sales practice standards, which must be completed within prescribed time frames. Currently, the Regulatory Element may be administered in a test center or in-firm subject to specified procedures, but most registered persons complete the Regulatory Element in a test center. Because of the costs and other concerns regarding the test center delivery method, FINRA amended Rule 1250(a)(6) to provide that the Regulatory Element program can be administered through Web-based delivery or such other technological manner and format as specified by FINRA. CE Online, the new Web-based delivery method, is administered through the FINRA CE Online System™. It will provide registered



persons with the flexibility to complete the Regulatory Element at a location of their choosing, including their private residence, at any time during their 120-day window for completion of the Regulatory Element.

- [FINRA Regulatory Notice 15-28 \(August 2015\)](#): SEC Approves Amendments Relating to Web-based Delivery of the Regulatory Element

Background Checks on Registration Applicants

The SEC approved FINRA Rule 3110(e) (Responsibility of Member to Investigate Applicants for Registration) to replace NASD Rule 3010(e) (Qualifications Investigated) relating to background checks on registration. Rule 3110(e) is based in part on substantially similar provisions in NASD Rule 3010(e) and Incorporated NYSE Rule 345.11 (Investigation and Records), and includes new provisions relating to the verification of information in the Form U4 (Uniform Application for Securities Industry Registration or Transfer). The SEC also approved Rule 3110.15 (Temporary Program to Address Underreported Form U4 Information), which establishes a temporary program that will issue a refund to members of Late Disclosure Fees assessed for the late filing of responses to Form U4 Question 14M, subject to specified conditions. Rule 3110(e) becomes effective on July 1, 2015. Rule 3110.15 became retroactively effective on April 24, 2014, and it will automatically sunset on December 1, 2015.

- [FINRA Regulatory Notice 15-05 \(March 2015\)](#): SEC Approves Consolidated FINRA Rule Regarding Background Checks on Registration Applicants

Payments to Unregistered Persons

The SEC approved FINRA Rule 2040 (Payments to Unregistered Persons) regarding the payment of transaction-based compensation by member firms to an unregistered person and FINRA Rule 0190 (Effective Date of Revocation, Cancellation, Expulsion, Suspension or Resignation). The rules streamline provisions of NASD rules on which they are based and align with Section 15(a) of the Exchange Act and its related guidance to determine whether registration as a broker-dealer is required for certain persons to receive transaction-related compensation and to engage in related activities. The SEC also approved amendments to FINRA Rule 8311 (Effect of a Suspension, Revocation, Cancellation, or Bar) which clarifies the scope of the rule on payments by member firms to persons subject to suspension, revocation, cancellation, bar or



other disqualification. The rules and amendments became effective on August 24, 2015.

- [FINRA Regulatory Notice 15-07 \(March 2015\)](#): SEC Approves Consolidated FINRA Rules 2040 (Payments to Unregistered Persons) and 0190 (Effective Date of Revocation, Cancellation, Expulsion, Suspension or Resignation), and Amendments to FINRA Rule 8311 (Effect of a Suspension, Revocation, Cancellation, or Bar)

***(Updated)* FINRA Revises Examination Programs**

FINRA periodically reviews the content of qualification examinations to determine whether revisions are necessary or appropriate in view of changes—including changes to the laws, rules and regulations—pertaining to the subject matter covered by the examinations. The changes are reflected in the content outlines for the examinations on FINRA’s website.

The Series 4 (Registered Options Principal) Examination: Based on this review process, FINRA has revised the Registered Options Principal (Series 4) examination program. The new examination was implemented on September 28, 2015.

- [FINRA Regulatory Notice 15-29 \(August 2015\)](#): FINRA Revises the Registered Options Principal (Series 4) Examination Program

The Series 24 (General Securities Principal) and Series 23 (General Securities Principal Sales Supervisor Module) Examinations: Based on this review process, FINRA has revised the General Securities Principal (Series 24) and General Securities Principal Sales Supervisor Module (Series 23) examination programs. The new examinations were implemented on October 13, 2014.

- [FINRA Regulatory Notice 14-33 \(August 2014\)](#): FINRA Revises the Series 24 and 23 Examination Programs

The Series 26 (Investment Company and Variable Contracts Products Principal) Examination: Based on this review process, FINRA has revised the Investment Company and Variable Contracts Products Principal (Series 26) examination program. The new examination was implemented on June 16, 2014.



- [FINRA Regulatory Notice 14-18 \(April 2014\)](#): FINRA Revises the Investment Company and Variable Contracts Products Principal (Series 26) Examination Program

BrokerCheck®

The SEC approved two rule changes related to FINRA Rule 8312 (FINRA BrokerCheck Disclosure). First, the SEC approved amendments to permanently make publicly available in BrokerCheck information about former associated persons of a FINRA member firm who were registered on or after August 16, 1999, and who have been the subject of an investment-related civil action brought by a state or foreign financial regulatory authority that was dismissed pursuant to a settlement agreement. Second, the SEC approved amendments to include in BrokerCheck information about member firms and their associated persons of any registered national securities exchange that uses the CRD for registration purposes. Both rule changes became effective on June 23, 2014.

- [FINRA Regulatory Notice 14-08 \(February 2014\)](#): SEC Approves Changes to Expand the Categories of Civil Judicial Disclosure Permanently Included in BrokerCheck and to Include in BrokerCheck Information About Member Firms and Their Associated Persons of Any Registered National Securities Exchange That Uses the CRD System for Registration Purposes

SALES PRACTICE AND SUPERVISION

Supervision Rules

The SEC approved FINRA Rules 3110 (Supervision) and 3120 (Supervisory Control System) to replace NASD Rules 3010 (Supervision), 3012 (Supervisory Control System) and corresponding provisions of the NYSE Rules and Interpretations. In addition, FINRA Rules 3150 (Holding of Customer Mail) and 3170 (Tape Recording of Registered Persons by Certain Firms) replace NASD Rules 3110(i) and 3010(b)(2), often referred to as the “Taping Rule,” respectively. The supervision rules became effective on December 1, 2014 (except with respect to Incorporated NYSE Rules 343, 343.10 and Incorporated NYSE Rule Interpretation 343(a)/01, which were deleted effective April 7, 2014, to correspond to the implementation date of the revised Form BR (See *Regulatory Notice 14-11*)).



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

Enforcement Actions Against Licensed Broker Sales Agents

NASAA announced a significant rise in the number of formal enforcement actions initiated by state securities regulators in 2013 against licensed broker-dealer sales agents as well as unlicensed individuals and firms. The 2014 Enforcement Report on 2013 Data includes responses from 51 individual jurisdictions throughout the United States and provides the numbers of complaints received, and investigations and actions states have conducted or initiated.

- [NASAA Enforcement Report “2014 Report on 2014 Data” \(Prepared by NASAA Enforcement Section, October 2014\)](#)

Unregistered Sales Assistants

NASAA reminds broker-dealers to review the registration requirements related to affiliated persons that accept unsolicited orders from clients. This reminder is especially important as it relates to Client Associates and Sales Assistants supporting Registered Representatives registered in multiple jurisdictions. In addition to maintaining the necessary qualifications, anyone that accepts orders from clients may need to be registered in the home states of such clients. Broker-dealers are reminded to check with the appropriate jurisdiction where clients reside to determine the registration requirements of all personnel.

- [JP Morgan Settles with States for Unregistered Sales Assistants](#)

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.”



- [FINRA Regulatory Notice 13-31 \(September 2013\)](#): FINRA Highlights Examination Approaches, Common Findings and Effective Practices for Complying With its Suitability Rule

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 Industry Issues Center: Suitability](#)

FINRA reminded firms of their supervisory obligations regarding their registered persons’ use of senior designations. Firms are encouraged to adopt practices to strengthen their own supervisory procedures, as appropriate to their business.

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

(New) SANCTIONS GUIDELINES

The National Adjudicatory Council (NAC) Revises the Sanction Guidelines Related to Misrepresentations and Suitability

The NAC has revised the Sanction Guidelines related to misrepresentations and suitability. Specifically, the revisions:

- modify the guidelines related to fraud to advise adjudicators to strongly consider barring an individual respondent for intentional or reckless fraud, and expelling a firm where aggravating factors predominate the firm’s misconduct;
- modify the guidelines related to suitability to advise adjudicators to strongly consider barring an individual respondent where aggravating factors predominate the respondent’s misconduct and ordering expulsion of a firm in egregious cases;
- emphasize that FINRA’s disciplinary sanctions should be designed to protect the investing public by deterring misconduct and upholding high standards of business conduct;



- reiterate FINRA’s longstanding position that sanctions in disciplinary cases should be more severe for recidivists;
- index the high-end of the monetary sanctions to the Consumer Price Index starting from 1998; and
- reflect the new FINRA rule numbers for rules that have been adopted into the consolidated FINRA rulebook.

The revised Sanction Guidelines are effective immediately and available on FINRA’s website.

- [FINRA Regulatory Notice 15-15 \(May 2015\)](#): The National Adjudicatory Council (NAC) Revises the Sanction Guidelines Related to Misrepresentations and Suitability

TRADING PRACTICES AND SUPERVISION

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

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

- [FINRA Tick Size Pilot Program \(August 2015\)](#): The SEC issued an order approving the NMS Plan to implement a Tick Size Pilot Program by the National Securities Exchanges and FINRA

Limit Up/Limit Down Plan Pilot Program

On May 31, 2012, the SEC approved, on a pilot basis, an NMS Plan, known as the Limit Up/Limit Down Plan or LULD, to address extraordinary market volatility. The plan is designed to prevent trades in individual NMS Stocks from



occurring outside of specified price bands, which are set at a percentage level above and below the average price of a security over the preceding five-minute period, as set forth in the plan. Phase 1 began on April 8, 2013, along with the modified market wide circuit breakers. Phase 2 began on August 5, 2013. The plan currently is scheduled to expire on October 23, 2015.

- [FINRA Alert on Limit Up/Limit Down \(LULD\) Plan \(February 2013\)](#)
- [FINRA Regulatory Notice 13-12 \(March 2013\)](#): FINRA Adopts Amendments Relating to Regulation NMS Plan 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

Clearly Erroneous Executions

The SEC approved changes to the Clearly Erroneous Execution Rules across all SROs. The amendments, among other things, added new provisions to address multi-day clearly erroneous events and transactions occurring during trading halts. The amendments became effective on June 19, 2014.

- [Securities Exchange Act Release No. 72434 \(June 19, 2014\), 79 FR 36110 \(June 25, 2014\) \(Order Granting Approval of Proposed Rule Changes Relating to Clearly Erroneous Executions\); File No. SR-FINRA-2014-021](#)

Best Execution Rule

FINRA Rule 5310 (Best Execution and Interpositioning) governs members' best execution requirements. The Supplementary Material to Rule 5310 includes provisions concerning securities with limited quotation or pricing information available, orders for foreign securities with no U.S. market, customer instructions on routing orders, and regular and rigorous review of execution quality. FINRA Rule 6438 (Displaying Priced Quotations in Multiple Quotation Mediums) requires members to display the same priced quotation for OTC equity securities in multiple quotation mediums.

- [FINRA Regulatory Notice 12-13 \(March 2012\)](#): SEC Approves Consolidated FINRA Best Execution Rule



Payments for Market Making Certification Requirement for FINRA Form 211

FINRA Rule 5250 (Payments for Market Making) prohibits firms and their associated persons from accepting any payment or other consideration, directly or indirectly, from an issuer of a security, or any affiliate or promoter thereof, for publishing a quotation, acting as market maker in a security, or submitting an application in connection therewith. Rule 5250 is intended to, among other things, assure that a firm acts in an independent capacity when publishing a quotation or making a market in an issuer's securities. The Rule 5250 prohibition on receiving payments for market making includes within its scope the receipt of payments for submitting a Form 211 to FINRA pursuant to FINRA Rule 6432 (Compliance with the Information Requirements of SEA Rule 15c2-11), which sets forth the standards applicable to firms for demonstrating compliance with SEA Rule 15c2-11 and must be complied with prior to initiating or resuming quotations in a quotation medium. Rule 6432 requires, among other things, firms to certify to FINRA that neither the firm nor its associated persons have accepted or will accept any payment or other consideration, directly or indirectly, from the issuer of the security to be quoted, or any affiliate or promoter thereof, for publishing a quotation or acting as a market maker in the security to be quoted, or submitting an application in connection therewith, including the submission of the Form 211. The certification was included in the Form 211 beginning on July 7, 2014.

- [FINRA Regulatory Notice 14-26 \(June 2014\)](#): Prohibition on Payments for Market Making

Insider Trading

FINRA Rule 3110 (Supervision) includes a provision to help firms comply with their obligation under Section 15(g) of the SEA 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. Rule 3110 became effective on December 1, 2014.



- [SEC Staff Summary Report on Examinations of Information Barriers: Broker-Dealer Practices Under Section 15\(g\) of the SEA \(September 2012\)](#)
- [FINRA Regulatory Notice 14-10 \(March 2014\)](#): SEC Approves New Supervision Rules
- [SEC Enforcement Actions](#): Insider Trading Cases

TRANSACTION REPORTING AND DATA DISSEMINATION

(New) Amendments to Require Firms to Identify Transactions With Non-Member Affiliates in TRACE Trade Reports

The SEC approved an amendment to the Trade Reporting and Compliance Engine (TRACE) rules to permit FINRA to implement a new contra-party type for use by firms in identifying transactions with non-member affiliates. The amendment also requires firms to separately identify transactions with non-member affiliates that occur within the same day, at the same price and in the same security as a trade with another contra-party. The amendment will become effective on November 2, 2015.

- [FINRA Regulatory Notice 15-14 \(May 2015\)](#): SEC Approves Amendments to Require Firms to Identify Transactions with Non-Member Affiliates in TRACE Trade Reports

(New) Guidance on Effective Supervision and Control Practices for Firms Engaging in Algorithmic Trading Strategies

Because algorithmic trading strategies, including high frequency trading (HFT) strategies (hereinafter referred to collectively as “algorithmic strategies”), now account for a substantial portion of activity on U.S. securities markets, the potential for these strategies to adversely impact market and firm stability has increased. In light of the increasing use of algorithmic strategies, FINRA published *Regulatory Notice 15-09* to provide firms with guidance on effective supervision and control practices for member firms and market participants that use algorithmic strategies. The effective practices discussed in the *Notice* 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

Elimination of OTC Bulletin Board Historical Research Reports, Fees for ORF Trade Reporting and Data

Effective September 30, 2014, FINRA no longer provides historical research reports for OTC Bulletin Board securities and FINRA Rule 7740, pursuant to which FINRA charged for these reports, is deleted. FINRA also announced amendments to FINRA Rule 7710 relating to fees for OTC Reporting Facility (ORF) trade reporting and data upon migration of the ORF to FINRA's Multi-Product Platform on November 17, 2014.

- [FINRA Regulatory Notice 14-36 \(September 2014\)](#): FINRA Announces Elimination of OTC Bulletin Board Historical Research Reports, Fees for ORF Trade Reporting and Data

Self-Trades

The SEC approved new supplementary material to FINRA Rule 5210 (Publication of Transactions and Quotations) to address transactions in a security resulting from the unintentional interaction of orders originating from the same firm that involve no change in the beneficial ownership of the security (self-trades). Firms must have policies and procedures in place that are reasonably designed to review trading activity for, and prevent, a pattern or practice of self-trades resulting from orders originating from a single algorithm or trading desk, or related algorithms or trading desks. *Regulatory Notice 14-28* describes the new rule, including firms' obligations regarding self-trades and under what circumstances algorithms or trading strategies are presumed to be "related" for purposes of the rule. The rule became effective on August 25, 2014.

- [FINRA Regulatory Notice 14-28 \(June 2014\)](#): SEC Approves FINRA Rule Concerning Self-Trades



Interpretation to Clarify the Classification and Trade Reporting of Certain “Hybrid” Securities to FINRA

FINRA filed a rule change and issued a *Notice* providing guidance on how trades in certain securities that have both debt- and equity-like features (hybrid securities) must be reported to FINRA. Specifically, the SEC approved an interpretation regarding the appropriate trade reporting facility to which firms should report transactions in the following three types of hybrid securities: (1) unlisted depository shares having a liquidation preference of \$1,000 or more; (2) unlisted non-convertible preferred securities having a liquidation preference of \$1,000 or more; and (3) unlisted capital trust securities. FINRA issued a *Notice* announcing an effective date of June 16, 2014, on which date all firms were required to report transactions in covered hybrid securities to TRACE, consistent with the guidance provided in the interpretation. A list of covered hybrid securities moved from the OTC Reporting Facility to TRACE on June 16, 2014, is attached to the *Notice*.

- [**FINRA Regulatory Notice 14-23 \(May 2014\)**](#): FINRA Issues an Interpretation to Clarify the Classification and Trade Reporting of Certain “Hybrid” Securities to FINRA

FINRA and ISG Extend Effective Date for Certain Electronic Blue Sheet Data Elements

FINRA and the other U.S. ISG members extended the effective date for compliance with certain new data elements for Electronic Blue Sheets identified in *Regulatory Notice 13-16* to May 1, 2014, to correspond to the extension by the SEC for compliance with certain broker-dealer recordkeeping and reporting requirements of SEA Rule 13h-1.

- [**FINRA Regulatory Notice 13-38 \(November 2013\)**](#): FINRA and ISG Extend Effective Date for Certain Electronic Blue Sheet Data Elements
- [**FINRA Regulatory Notice 13-16 \(April 2013\)**](#): FINRA and ISG Extend Effective Date for Certain Electronic Blue Sheet Data Elements
- [**CBOE Regulatory Circular RG13-074/C2 Regulatory Circular RG13-029 \(May 2013\)**](#): CBOE and ISG Extend Effective Date for Certain Electronic Blue Sheet Data Elements



In addition, on August 8, 2013, the SEC announced further exemptive relief for certain broker-dealers and certain transactions from the recordkeeping and reporting requirements of SEA Rule 13h-1.

- **SEC Exemptive Order**: Order Temporarily Exempting Certain Broker-Dealers and Certain Transactions from the Recordkeeping and Reporting Requirements of Rule 13h-1 under the SEA

Reporting of OTC Transactions in Equity Securities

The SEC approved amendments to FINRA trade reporting rules to require member firms to report over-the-counter transactions in equity securities to FINRA as soon as practicable, but no later than 10 seconds, following execution. With respect to trades that are reported manually, FINRA will take into consideration the complexity and manual nature of the execution and reporting of the trade when reviewing for firm compliance with the new reporting time frame. The amendments became effective on November 4, 2013.

- **FINRA Regulatory Notice 13-19 (May 2013)**: SEC Approves Amendments to Require Firms to Report OTC Transactions in Equity Securities as Soon as Practicable, But No Later than 10 Seconds, Following Execution

The SEC approved amendments to FINRA rules governing the reporting of over-the-counter transactions in equity securities to the FINRA trade reporting facilities and orders in NMS stocks and OTC Equity Securities to the Order Audit Trail System (OATS). The amendments to the trade reporting rules relate to reporting (i) an additional time field for specified trades, (ii) execution time in milliseconds, (iii) reversals, (iv) trades executed on non-business days and trades that are more than one year old, and (v) “step-outs,” and also reflect changes in the processing of trades that are submitted to FINRA for clearing. In addition, the amendments codify existing OATS guidance regarding reporting order event times to OATS in milliseconds. The effective dates for the amendments were as follows: OATS: April 7, 2014; ADF and TRFs (millisecond reporting): November 10, 2014; ORF: November 17, 2014; and ADF and TRFs (remaining amendments): July 13, 2015.

- **FINRA Regulatory Notice 14-21 (May 2014)**: SEC Approves Amendments to Equity Trade Reporting and OATS Rules



Trade Reporting and Compliance Engine (TRACE) Reporting

The SEC approved amendments to FINRA Rule 6730(d)(2) to require firms to report to TRACE the factor for each transaction in an asset-backed security (ABS) (except an ABS traded to be announced), in the limited instances when firms effect such transactions as agent and charge a commission. The amendments became effective on July 22, 2013.

- [FINRA Regulatory Notice 13-15 \(April 2013\)](#): SEC Approves Amendments to FINRA Rule 6730(d)(2) Requiring Firms to Report Factor in Asset-Backed Securities Transactions Executed in Agency Capacity and Subject to Commission Charges

On July 22, 2013, FINRA began making available information on historic transactions in agency pass-through mortgage-backed securities and Small Business Administration-backed asset-backed securities (SBA-Backed ABS) traded in specified pool transactions and SBA-Backed ABS traded to be announced.

- [FINRA Regulatory Notice 13-24 \(July 2013\)](#): FINRA Announces Modifications Regarding Historic TRACE Data

FINRA issued guidance to address several trade reporting issues in connection with reporting transactions in TRACE-eligible securities to the TRACE system, including split-volume reporting; reporting investment adviser-directed transactions; reporting Securities Act Regulation S transactions; transfers establishing the underwriting syndicate; firm commitments prior to final pricing; transfers facilitating settlement; and reporting collateralized mortgage obligations.

- [FINRA Trade Reporting Notice \(August 2013\)](#): Frequently Asked Questions Regarding TRACE Reporting

Amendments to Disseminate Additional Asset-Backed Securities Transactions and to Reduce the Reporting Time for Such Transactions

The SEC approved amendments to the TRACE rules and dissemination protocols to provide for dissemination of transactions in an additional group of asset-backed securities and to reduce the time frame for reporting such transaction, other than Fixed or List Price and Takedown Transactions. Transactions in asset-backed



securities effected pursuant to Securities Act Rule 144A also will be disseminated. The amendments became effective on June 1, 2015.

- [FINRA Regulatory Notice 14-34 \(August 2014\)](#): SEC Approves Amendments to Disseminate Additional Asset-Backed Securities Transactions and to Reduce the Reporting Time for such Transactions

More Information and Resources:

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

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