



Securities Industry Continuing Education Program Firm Element Advisory – Q1 2017

Introduction

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

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

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

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

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

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



- [Guide to Firm Element Needs Analysis and Training Plan Development](#): Suggestions for effectively performing the needs analysis and developing written training plans.
- [Continuing Education Regulatory Element Report](#): A quarterly report, available through FINRA's Report Center that compares a firm's Regulatory Element Continuing Education performance with the industry at large for the same programs and modules. Firms should review the performance of their registered persons since the last needs analysis to determine if any modules or topics appear to warrant additional training. Firms may sign up to view the reports on [FINRA's Report Center](#).
- [FINRA's 2017 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 2016](#): 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

DPPs

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 became effective on April 11, 2016.

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

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

Podcasts

- 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.



General

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

REITS

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 became effective on April 11, 2016.'

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



Supervision

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

Conflicts of Interest

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

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

- FINRA Topic Page: [Conflicts of Interest](#)



Podcasts

- 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.

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ANTI-MONEY LAUNDERING (AML)

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](#)

Podcasts

- 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 Advisories/Bulletins/Fact Sheets](#)
- [SEC Letter to FINRA \(January 26, 2012\)](#)
- [SEC Open Letter to CEOs of All SEC-Registered, FINRA Member Broker-Dealers \(January 26, 2012\)](#)
- [FINRA Regulatory Notice 12-08 \(February 2012\): SEC Requests Broker-Dealers Make SARs and SAR Information Available to FINRA](#)

SAR Alert Message Line

The SEC 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](#)

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BUSINESS CONTINUITY PLANNING

General

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

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

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 Business Continuity Planning Template
[Listen Now/Download](#) | 7 min. 30 sec.

FINRA, The SEC And CFTC Issue Joint Advisory On Business Continuity Planning

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

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

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COMMUNICATIONS

General

SEC Approves Amendments To Rules Governing Communications With The Public.

The SEC has approved amendments to FINRA rules governing communications with the public. The amendments revise the filing requirements in FINRA Rule 2210 (Communications with the Public) and FINRA Rule 2214 (Requirements for the Use of Investment Analysis Tools) and the content and disclosure



requirements in FINRA Rule 2213 (Requirements for the Use of Bond Mutual Fund Volatility Ratings).

- [FINRA Regulatory Notice 16-41 \(October 2016\)](#): SEC Approves Amendments to Rules Governing Communications With the Public.

Podcast

- Communications with the Public Rule Amendments
[Listen/Download Now](#) | 13 min.

Rule Change To Transfer NASD Interpretive Material 2210-2 into the Consolidated FINRA Rulebook As FINRA Rule 2211 (Communications With The Public About Variable Life Insurance And Variable Annuities)

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

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

Educational Communications On Recruitment Practices When Representatives Change Firms

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

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



- [Broker-Dealer Recruitment Disclosures](#): Complying with FINRA Rule 2273
- [FAQs Regarding FINRA Rule 2273](#)

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

Podcasts

- 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

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



Social Networking Websites And Business Communications Podcasts

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 1

[Listen Now/Download](#) | 8 min. 27 sec.

- 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

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CYBERSECURITY

General

A Small Entity Compliance Guide: Final Model Privacy Form Under The Gramm-Leach-Bliley Act

The model privacy form is designed to make it easier for consumers to understand how financial institutions collect and share their personal financial information and to compare different institutions' information practices. For a guide to implementing these procedures

visit: <https://www.sec.gov/divisions/marketreg/tmcompliance/modelprivacyform-secg.htm>

FINRA Report On Cybersecurity Practices

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



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

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

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

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

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

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

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



Fair And Accurate Credit Transactions Act Of 2003 (FACT Act) Red Flags Rule

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

- [FINRA Red Flags Rule Web Page](#)
- [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))

Podcast

- FTC's Red Flags Rule Template
[Listen Now/Download](#) | 7 min. 29 sec

Resources

FINRA Cybersecurity Topic Page

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

- [Cybersecurity Topic Page](#)



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

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

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

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

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DEBT

General

Amendments To Rule 2242 (Debt Research Analysts And Debt Research Reports)

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

- [Amendments to FINRA Rule 2242](#): Rule changes to clarify the application of the rule

The SEC approved amendments to FINRA Rule 2242 (Debt Research Analysts and Debt Research Reports) to address conflicts of interest relating to the publication and distribution of debt research reports. Rule 2242 became effective on July 16, 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.

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DISPUTE RESOLUTION

General

(NEW) Motions to Dismiss In Arbitration

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

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

(NEW) SEC Approves Amendments To The Customer And Industry Codes Of Arbitration Procedure Regarding Required Use Of The Dispute Resolution Party Portal

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

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



SEC Approves Amendments To The Codes Of Arbitration Procedure Regarding Award Offsets

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

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

Arbitration Guidance

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

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

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

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 Customer and Industry Codes of Arbitration Procedures. 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

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

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DUTIES AND CONFLICTS

Culture

Accounts At Other Broker-Dealers And Financial Institutions

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

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



Enforcement Actions Against Licensed Broker Sales Agents

Through NASAA's U.S. members' vigilance, in 2015, state securities regulators brought more than 2,000 enforcement actions against more than 2,700 respondents. As the charts that follow demonstrate, a single enforcement action often names several individuals and one or more companies as respondents. Large or complex cases can have numerous respondents.

- [NASAA Enforcement Report "2016 Report on 2015 Data" \(Prepared by NASAA Enforcement Section, September 2016\)](#)

General

Know-Your-Customer And Suitability Obligations

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

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

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



Supervision

FINRA Supervision Topic Page

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

- [Supervision Topic Page](#)

Political Contributions

SEC Approves FINRA “Pay-To-Play” And Related Rules

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

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

Amendments To MSRB Rule G-37 On Political Contributions And Prohibitions On Municipal Securities Business

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

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

Effective August 17, 2016, the Rule G-37 Amendments extend the core standards under Rule G-37 to municipal advisors, their political contributions and the provision of municipal advisory business. The amendments are designed to



address potential “pay-to-play” practices by municipal advisors consistently with the MSRB’s existing regulation of dealers.

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

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EQUITY

Algorithms

Qualification And Registration Of Associated Persons Relating To Algorithmic Trading

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

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

Execution

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



General

Equity Research

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

Supervision

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

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FINANCIAL RESPONSIBILITY RULES FOR BROKER-DEALERS

General

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.

- [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

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

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INVESTMENT BANKING

Funding Portals

FINRA Funding Portal Rules And Related Forms

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

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

Jumpstart Our Business Startups (JOBS) Act

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

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



Private Placements

SEC Adopts Final Rules To Facilitate Intrastate And Regional Securities Offerings.

The final rules amend Securities Act Rule 147 to modernize the safe harbor under Section 3(a)(11) of the Securities Act, so issuers may continue to use state law exemptions that are conditioned upon compliance with both Section 3(a)(11) and Rule 147. The final rules also establish a new intrastate offering exemption, Securities Act Rule 147A, that further accommodates offers accessible to out-of-state residents and companies that are incorporated or organized out-of-state.

- [SEC Press Release 2016-226 \(October 26, 2016\)](#): SEC Adopts Final Rules to Facilitate Intrastate and Regional Securities Offerings.

SEC Approves FINRA's Capital Acquisition Broker (CAB) Rules

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

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

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

Guidance On Private Placements And Public Offerings Subject To A Contingency

FINRA's review of securities offering documents has revealed instances in which broker-dealers have not complied with the contingency offering requirements of Rules 10b-9 and 15c2-4 under the Securities Exchange Act of 1934 (SEA).



FINRA is publishing Regulatory Notice 16-08 to provide guidance regarding the requirements of SEA Rules 10b-9 and 15c2-4 and to remind broker-dealers of their responsibility to have procedures reasonably designed to achieve compliance with these rules.

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

Electronic Filing Depository

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

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

Public Offerings

Guidance On Private Placements And Public Offerings Subject To A Contingency

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

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

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

Supervision

Accounts At Other Broker-Dealers And Financial Institutions

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

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

Insider Trading

FINRA Rule 3110 (Supervision) includes a provision to help firms comply with their obligation under Section 15(g) of the 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.

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

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MARGIN

General

Amendments To FINRA Rule 4210 (Margin Requirements) To Establish Margin Requirements For Covered Agency Transactions

The SEC has approved FINRA's rule change amending FINRA Rule 4210 to establish margin requirements for Covered Agency Transactions. Covered Agency Transactions include (1) To Be Announced (TBA) transactions, inclusive of adjustable rate mortgage (ARM) transactions, (2) Specified Pool Transactions and (3) transactions in Collateralized Mortgage Obligations (CMOs), issued in conformity with a program of an agency or Government-Sponsored Enterprise (GSE), with forward settlement dates, as discussed more fully in Regulatory Notice 16-31.

- [FINRA Regulatory Notice 16-31 \(August 2016\)](#): SEC Approves Amendments to FINRA Rule 4210 (Margin Requirements) to Establish Margin Requirements for Covered Agency Transactions

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MUNICIPAL SECURITIES

General

Extension Of MSRB's Customer Complaint And Related Recordkeeping Rules To Municipal Advisors And The Modernization Of Those Rules

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



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

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

The MSRB received approval from the SEC for a proposed rule change to MSRB Rule G-15 on confirmation, clearance, settlement and other uniform practice requirements with respect to customer transactions, and Rule G-30, on prices and commissions, to require brokers, dealers and municipal securities dealers to disclose mark-ups and mark-downs to retail customers on certain principal transactions and to provide dealers guidance on prevailing market price for the purpose of determining mark-ups and other Rule G-30 determinations. The new rule will be effective on May 14, 2018

- [MSRB Regulatory Notice 2016-28 \(November 29, 2016\)](#): New Disclosure Requirements Under MSRB Rule G-15 and Prevailing Market Price Guidance Pursuant to Rule G-30 Effective May 14, 2018

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

MSRB Rule G-47, on time of trade disclosure, requires brokers, dealers and municipal securities dealers (collectively, “dealers”) to disclose to their customers, at or prior to the time of trade, all material information known about the transaction, as well as material information about the municipal security that is reasonably accessible to the market. The MSRB has previously provided interpretive guidance, now codified in supplementary material to Rule G-47, on specific types of information that is material where specific scenarios occur and requires time of trade disclosure.

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

Amendments To MSRB Rule G-37 On Political Contributions And Prohibitions On Municipal Securities Business

The amendments to MSRB Rule G-37, on political contributions and prohibitions on municipal securities business, and related amendments to MSRB Rules G-8, on books and records, and G-9, on preservation of records, and Forms G-37 and G-37x became effective on August 17, 2016. In particular, the amendments to Rule G-37 extend the core standards under Rule G-37 to municipal advisors, their political contributions and the provision of municipal advisory business. The amendments are specifically designed to address potential “pay-to-play”



practices by municipal advisors consistently with the MSRB's existing regulation of dealers.

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

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

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

MSRB Amends Rules To Define Two-Day Settlement Cycle

The Municipal Securities Rulemaking Board (MSRB) received approval from the Securities and Exchange Commission (SEC) on April 29, 2016 to amend MSRB Rules G-12, on uniform practice, and G-15 on confirmation, clearance, settlement and other uniform practice requirements with respect to transactions with customers, to define regular-way settlement for municipal securities transactions as occurring on a two-day settlement cycle (“T+2”) and technical conforming amendments. The MSRB will announce the compliance date of the amendments in a notice to be published on the MSRB website, which date will correspond with the broader industry transition to a T+2 regular way settlement, which is dependent upon the SEC making corresponding amendments to Exchange Act Rule 15c6-1(a).

- [MSRB Regulatory Notice 2016-15 \(May 2, 2016\)](#): MSRB to Amend Rules to Define Two-Day Settlement Cycle

Direct Purchases And Bank Loans As Alternatives To Public Financing In The Municipal Securities Market

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

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



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

Designation Information Regarding Mandatory Participation In Business Continuity And Disaster Recovery Testing

To facilitate compliance with Securities and Exchange Commission Regulation Systems Compliance and Integrity (Regulation SCI), the MSRB adopted Rule A-18 on Mandatory Participation in Business Continuity and Disaster Recovery Testing on November 2, 2015. The MSRB has established criteria for designating participants for mandatory functional and performance testing of the operation of the MSRB's business continuity and disaster recovery plans.

- [MSRB Regulatory Notice 2016-04 \(January 2016\)](#): Designation Information Regarding Mandatory Participation in Business Continuity and Disaster Recovery Testing

Best Execution Rule

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

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

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

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

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

Registration

Municipal Advisor Representative Qualification Examination (Series 50)

The MSRB will make available the permanent Municipal Advisor Representative Qualification Examination (Series 50) test beginning September 12, 2016. As provided for under MSRB Rule G-3, municipal advisor representatives are required to take and pass the Series 50 in order to engage in municipal advisory activities. To facilitate the transition to the new exam requirement, the MSRB is providing a one year grace period, ending on September 12, 2017, during which individuals will be able to take the exam while continuing to engage in municipal advisory activities. The score required to pass the Series 50 Exam is 71 percent.

- [MSRB Regulatory Notice 2016-16 \(May 31, 2016\)](#): MSRB to Launch Permanent Series 50 Exam September 12, 2016

Periodic reviews of the content of the MSRB's qualification examinations are required to determine whether revisions are necessary or appropriate in view of changes to the laws, rules and regulations pertaining to the subject matter of the qualification examination. The content outline for the Series 50 has been amended to reflect changes to the laws, rules and regulations covered by the examination and, among other things, incorporate the functions and associated tasks performed by a municipal advisor representative.

- [MSRB Regulatory Notice 2016-17 \(June 15, 2016\)](#): MSRB Revises Content Outline for the Municipal Advisor Qualification Examination

Amendments To MSRB Rule G-3 Regarding Continuing Education

Effective January 1, 2015, MSRB Rule G-3, on professional qualification requirements, requires certain persons registered with brokers, dealers and municipal securities dealers (collectively, dealers) to participate in annual firm



training on municipal securities matters. Dealers must complete the training by December 31, 2015, and each year thereafter.

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

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
- [FAQs on MSRB Registration: Rule A-12](#)

Reporting

Amendments To MSRB Rule G-14 And Real-Time Transaction Reporting System

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



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

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 \(January 29, 2015\)](#): Bank Loan Disclosure Market Advisory
- [MSRB Notice 2011-37 \(August 3, 2011\)](#): Financial Advisors, Private Placements, and Bank Loans
- [MSRB Notice 2011-52 \(September 12, 2011\)](#): Potential Applicability of MSRB Rules to Certain “Direct Purchases” and “Bank Loans”

Supervision

MSRB Revises Content Outline For The General Securities Sales Supervisor Qualification Examination

The revisions to the content outline for the General Securities Sales Supervisor Qualification Examination (Series 9/10) were implemented on March 7, 2016. The content outline for the Series 9/10 was amended to reflect changes to the laws, rules and regulations covered by the examination and, among other things, incorporate the functions and associated tasks performed by a Municipal Securities Sales Principal.



- [MSRB Regulatory Notice 2016-05 \(January 28, 2016\)](#): MSRB Revises Content Outline for the General Securities Sales Supervisor Qualifications Examination

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 \(October 24, 2014\)](#): SEC Approves MSRB Rule G-44 on Supervisory and Compliance Obligations of Municipal Advisors, and Amendments to MSRB Rules G-8 and G-9

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MUTUAL FUNDS

Suitability

FINRA Guidance On Mutual Funds

More information on mutual funds can be found at <http://www.finra.org/industry/mutual-funds>.

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OPTIONS

General

Submission Of Subordination Agreements

In accordance with Appendix D of the Securities Exchange Act of 1934 (“SEA”) Rule 15c3-1, every broker or dealer registered pursuant to SEA Section 15 that enters into a proposed subordination agreement or secured demand note agreement must file such agreements with the firm’s designated examining authority (“DEA”) for review and approval, unless otherwise exempt. Effective April 1, 2016, Trading Permit Holders for whom Chicago Board Options Exchange, Incorporated (“CBOE”) or C2 Options Exchange, Incorporated (“C2”



and, collectively with CBOE, the “Exchanges”) is the Designated Examining Authority (“DEA”) will be required to electronically submit requests for approval of proposed subordination loan agreements and secured demand note agreements, including any renewals or amendments of existing agreements, to CBOE or C2 via the FINRA Firm Gateway platform. This submission method will replace the current submission of subordination agreement approval requests (which is via hardcopy or email to DMFRNotification@cboe.com). CBOE and C2 will no longer accept requests filed in hardcopy or email.

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

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 \(June 30, 2015\)](#): Exchange Liability

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 RG15-093 \(June 19, 2015\)](#): Updates to CBOE Rules 6.53(y) and 15.2A and TPH Information Session (This circular updates RG15-056)
- [CBOE Regulatory Circular RG15-056 \(April 7, 2015\)](#): 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 RG15-018 \(February 11, 2015\)](#): Delayed Implementation of Tied to Stock Order Marking and Reporting Requirements
- [CBOE Regulatory Circular RG14-171 \(December 10, 2014\)](#): Implementation Date for the Tied to Stock Order Marking and Reporting Requirements

Supervision

CBOE Rule 6.79 – Floor Broker Practices

Effective May 30, 2015, new CBOE Rule 6.79 replaces CBOE Regulatory Circular RG95-49 (Floor Brokerage Practices). CBOE Rule 6.79 sets forth requirements for floor brokers related to the liquidation or reduction of error account positions, erroneously executed orders, lost or misplaced market orders, legging multi-part orders, print-throughs, stopping orders, and documentation of errors and record keeping requirements. Regulatory Circular RG15-088 highlights particular provisions of CBOE Rule 6.79. Please see CBOE Rule 6.79 and SR-CBOE-2015-030 for a complete description of the requirements of CBOE Rule 6.79. If moving a client's position into the floor broker's error account requires the broker to make a change in Continuous Trade Match (CTM) to the series; quantity; buy or sell; premium price; or the origin code from "C" to any other origin code, the floor broker must follow the procedures set forth in CBOE Rule 6.67 (CBOE Trade Match System) and CBOE Regulatory Circular RG15-072 (Procedures Related to Rule 6.67).

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



Trade Nullification And Adjustment Of Options Transactions Including Obvious Errors

Effective May 8, 2015, CBOE Rule 6.25 was 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 (Nullification and Adjustment of Options Transactions including Obvious Errors).

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](#) to notify CBOE of a mutually agreed nullification or price adjustment.

- [CBOE Regulatory Circular RG15-074 \(May 6, 2015\)](#): Rule 6.25 - Nullification and Adjustment of Options Transactions Including Obvious Errors (Effective May 8, 2015, this circular replaced CBOE Regulatory Circular RG14-141)

Trading

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 \(July 13, 2015\)](#): Extended Trading Hours (ETH) Session Pre-Open Order Entry Time Extension

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 \(June 17, 2015\)](#): Amended Order Ticket Requirements for Complex Orders with More than 12 Legs (This circular updates CBOE Regulatory Circular RG15-067)

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 \(August 4, 2015\)](#): Prearranged Trades

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, 2017.

- [Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Rule 6.54](#)



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REGISTRATION AND DISCLOSURE

Background Checks

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) became effective on July 1, 2015. Rule 3110.15 became retroactively effective on April 24, 2014, and automatically sunset on December 1, 2015.

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

BrokerCheck / CRD

Member Websites Must Include A Readily Apparent Reference And Hyperlink To BrokerCheck

The SEC approved amendments to FINRA Rule 2210 (Communications with the Public) to require each of a member firm's websites to include a readily apparent reference and hyperlink to BrokerCheck on (1) the initial Web page that the firm intends to be viewed by retail investors, and (2) any other Web page that includes a professional profile of one or more registered persons who conduct business with retail investors. The rule amendments became effective June 6, 2016.

- [FINRA Regulatory Notice 15-50 \(December 2015\)](#): SEC Approves Rule Requiring Members' Websites to Include a Readily Apparent Reference and Hyperlink to BrokerCheck



Changes To Reduce The Waiting Period For The Release Of Information Reported On Form U5

The SEC approved a change to FINRA Rule 8312 (FINRA BrokerCheck Disclosure) to reduce the waiting period from 15 days to three business days for the release of certain information reported on the Form U5 (Uniform Termination Notice for Securities Industry Registration) through BrokerCheck. The effective date was December 12, 2015.

- [FINRA Regulatory Notice 15-49 \(December 2015\)](#): SEC Approves Changes to Reduce the Waiting Period for the Release of Information Reported on Form U5 through BrokerCheck

BrokerCheck Disclosure

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

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 \(Updated September 2015\)](#)

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

General

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 fee for it. 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

As announced in Regulatory Notice 15-28, as part of the transition to CE Online, FINRA is phasing out test center delivery of the Regulatory Element of Continuing Education (CE). This change became effective on July 1, 2016. As of that date, the option to complete the Regulatory Element at a Pearson VUE or a Prometric testing center will no longer be available, and participants with an open Regulatory Element window must complete their session using the FINRA CE Online System® with the exception of participants who, pursuant to the Americans with Disabilities Act (ADA), may need accommodations in completing their CE session due to a disability.

- [FINRA Information Notice – 5/16/16 \(May 16, 2016\)](#): Elimination of Continuing Education Delivery at Testing Centers

Qualifications Exams

Qualification And Registration Of Associated Persons Relating To Algorithmic Trading

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

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

Securities Trader Registration And Qualification Examination

The SEC recently approved FINRA's proposal to establish a registration category and qualification examination requirement for Securities Traders and Securities Trader Principals. Regulatory Notice 15-45 provides firms with information regarding the Securities Trader registration category and qualification examination (Series 57), Securities Trader Principal registration category, Series



57 examination fee and implementation of the new registration categories. In addition, the Notice provides firms with information regarding the Regulatory Element Continuing Education (CE) Program for Securities Traders. Candidates for the Series 57 examination will be able to schedule and take the examination beginning on January 4, 2016.

- [FINRA Regulatory Notice 15-45 \(November 2015\)](#): FINRA Announces Approval of and Implementation Date for Securities Trader and Securities Trader Principal Registration Categories and Related Qualification Examination, Fee and Continuing Education Requirements
- [Series 57 Test Outline](#)

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.

Based on this review process, FINRA has revised the Registered Options Principal (Series 4) examination program. The changes are reflected in the Series 4 content outline on FINRA’s website and will appear in Series 4 examinations administered on or after September 28, 2015.

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

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REPORTING

Trade Reporting

(NEW) Expiration Date Of FINRA Rule 0180 (Application Of Rules To Security-Based Swaps) Extended for Limited Period

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

- Securities Exchange Act Release No. 79752 (January 6, 2017), 82 FR 3824 (January 12, 2017) (File No. [SR-FINRA-2016-001](#)): Notice of Filing and



Immediate Effectiveness of a Proposed Rule Change To Extend the Expiration Date of FINRA Rule 0180 (Application of Rules to Security-Based Swaps)

Rule Change To Require Reporting Of Transactions In U.S. Treasury Securities To The Trade Reporting And Compliance Engine (TRACE)

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

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

Amendments To Disseminate Collateralized Mortgage Obligation (CMO) Transactions And To Reduce The Reporting Time For CMO Transactions.

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

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

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

On July 18, 2016, FINRA Rule 6732 (Exemption from Trade Reporting Obligation for Certain Transactions on an Alternative Trading System) became effective. Rule 6732 provides FINRA staff with the authority to grant a member alternative



trading system (ATS) an exemption from the TRACE trade reporting obligations of Rule 6730 (Transaction Reporting) for transactions occurring on an ATS that meet specified conditions.

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

Alternative Trading Systems (ATSS)

Beginning October 3, 2016, FINRA will expand its alternative trading system (ATS) transparency initiative to publish monthly information on block-size trades occurring on ATSS. The data is available free of charge on FINRA's website.

- [FINRA Regulatory Notice 16-14 \(April 2016\)](#): FINRA Announces Implementation Date for Publication of ATS Block-Size Trade Data

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 became 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

Interpretation To Clarify The Classification And Trade Reporting Of Certain “Hybrid” Securities To FINRA

Regulatory Notice 14-23 provides additional information 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 depositary 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 (also referred to as trust preferred securities) (together, “covered hybrid securities”).



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

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RESEARCH

General

FAQs About FINRA’s Research Conflict Of Interest Rules

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

Podcasts

- Research Conflicts Rules – Part 1
[Listen Now/Download](#) | 9 min. 08 sec.
- Research Conflicts Rules – Part 2
[Listen Now/Download](#) | 11 min. 12 sec.

Research Analysts

Amendments To FINRA Rule 2242 (Debt Research Analysts And Debt Research Reports)

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

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



Equity Research

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

Supervision

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.

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

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SENIOR INVESTORS

Resources

- FINRA Industry Issues: [Senior Investors](#)
- [FINRA Securities Helpline for Seniors](#): In 2015, FINRA launched the toll-free FINRA Securities Helpline for Seniors™ to provide older investors with a supportive place to get assistance from knowledgeable FINRA staff related to concerns they have with their brokerage accounts and investments. Senior



investors can call FINRA's new toll-free FINRA Securities Helpline for Seniors to get neutral, knowledgeable assistance with:

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

1-844-57-HELPS (1-844-574-3577)

Monday – Friday

9 A.M. To 5 P.M. EST

Suitability

FINRA Provides Guidance On Firm Responsibilities For Sales Of Pension Income Stream Products

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

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

FINRA Policies On The Use Of Senior Designations

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

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TRADING

General

Approval Of Rule Change To Amend FINRA Rules To Conform To Amendments To SEC Rule 15c6-1(A) And The Industry-Led Initiative To Shorten The Standard Settlement Cycle For Most BrokerDealer Transactions From T+3 To T+2

On December 14, 2016, FINRA' filed with the SEC, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") and Rule 19b-4 thereunder, a proposed rule change to conform its rules to an amendment proposed by the Commission to Rule 15c6-1(a) under the Act to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2"). The proposed rule change was published for comment in the Federal Register on December 28, 2016.

The ISC has identified September 5, 2017, as the target date for the transition to a T+2 settlement cycle to occur.

[Securities Exchange Act Release No. 34-80004 \(February 9, 2017\), \(File No. SR-FINRA-2016-047\)](#): Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Granting Approval of a Proposed Rule Change To Amend FINRA Rules To Conform to the Commission's Proposed Amendment to Commission Rule 15c6-1(a) and the Industry-Led Initiative To Shorten the Standard Settlement Cycle for Most BrokerDealer Transactions From T+3 to T+2

Stop Orders

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

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



Best Execution Rule

In light of the increasingly automated market for equity securities and standardized options, and recent advances in trading technology and communications in the fixed income markets, FINRA is issuing Regulatory Notice 15-46 to reiterate the best execution obligations that apply when firms receive, handle, route or execute customer orders in equities, options and fixed income securities. FINRA is also issuing this Notice to remind firms of their obligations, as previously articulated by the Securities and Exchange Commission (SEC) and FINRA, to regularly and rigorously examine execution quality likely to be obtained from the different markets trading a security.

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

SEC Issued An Order Approving The National Market System (NMS) Plan To Implement A Tick Size Pilot Program By The National Securities Exchanges And FINRA

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

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

Limit Up/Limit Down Plan Program

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

- [FINRA Alert on Limit Up/Limit Down \(LULD\) Plan](#)
- [FINRA Regulatory Notice 16-26 \(July 2016\)](#): FINRA Adopts Amendments Relating to the Regulation NMS Plans to Address Extraordinary Market Volatility



- [FINRA 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

Supervision

Guidance On Effective Supervision And Control Practices For Firms Engaging In Algorithmic Trading Strategies

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

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

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VARIABLE ANNUITIES

Supervision

FINRA Provides Guidance On Firm Responsibilities For Sales Of Pension Income Stream Products

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



responsibilities of firms in supervising the sale of pension income stream products.

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

FINRA And SEC Investor Alert

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

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