



September 2024

# Firm Element Needs Analysis Quarterly Highlights

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## Introduction

The Securities Industry/Regulatory Council on Continuing Education (Council) publishes the Firm Element Needs Analysis Quarterly Highlights to assist industry participants with identification of potential topics to include in Firm Element training plans. Topics are identified from a review of industry, regulatory and self-regulatory organization (SRO) announcements, publications of significant events, and the annual report from FINRA's Examination and Risk Monitoring Program, and the adoption by the U.S. Securities and Exchange Commission (SEC or Commission) of new rules or amendments.

The Council suggests that firms use the Firm Element Needs Analysis Quarterly Highlights as an aid in evaluating and prioritizing their Firm Element needs and developing written training plans.

Firms are reminded not to rely on the Firm Element Needs Analysis Quarterly Highlights as a comprehensive list of all areas they should consider. The Council recommends using all available tools to make Firm Element planning as efficient and effective as possible.

For more information, contact

[cecounciladmin@finra.org](mailto:cecounciladmin@finra.org)

## New Content Quick Reference

- [FINRA Regulatory Notice 24-11 \(August 9, 2024\)](#): FINRA Announces Publication of Updated Interpretations of FINRA's Margin Rule With Guides to the Updates
- [FINRA Regulatory Notice 24-09 \(June 27, 2024\)](#): FINRA Reminds Members of Regulatory Obligations When Using Generative Artificial Intelligence and Large Language Models

## Sales & Trading

### Margin

#### **(New) FINRA Announces Publication of Updated Interpretations of FINRA's Margin Rule with Guides to the Updates**

FINRA is updating the set of interpretations of the margin rule. The new, updated set of interpretations is available on the FINRA website and is effective upon publication of this Notice. To assist members, FINRA is simultaneously making available a guide to the updated interpretations that includes a text comparison with the previous interpretations and other information about the updates.

- [FINRA Regulatory Notice: 24-11 \(August 9, 2024\)](#): FINRA Announces Publication of Updated Interpretations of FINRA's Margin Rule with Guides to the Updates

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### Regulation Best Interest

#### **FINRA Highlights Available Guidance and Resources Related to Regulation Best Interest**

*Regulatory Notice 23-20* discusses the guidance and other resources available to assist members with their compliance efforts in connection with the SEC's Regulation Best Interest (Reg BI). In particular, FINRA highlights the SEC's series of Staff Bulletins (Bulletins) reiterating standards of conduct for broker-dealers (BDs or members) and investment advisers (IAs): SEC Staff Bulletin: Standards of Conduct for Broker-Dealers and Investment Advisers Account Recommendations for Retail Investors; SEC Staff Bulletin: Standards of Conduct for Broker-Dealers and Investment Advisers Conflicts of Interest; and SEC Staff Bulletin: Standards of Conduct for Broker-Dealers and Investment Advisers Care Obligations. FINRA encourages members to review these Bulletins closely, along with the Reg BI Adopting Release and the other guidance and resources identified in this Notice, as part of their ongoing efforts to meet their best interest obligations.

This *Notice* does not create new legal or regulatory requirements or new interpretations of existing requirements, nor does it relieve firms of any existing obligations under federal securities laws and regulations.

- [FINRA Regulatory Notice: 23-20 \(December 5, 2023\)](#): FINRA Highlights Guidance and Resources Related to Regulation Best Interest

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## Complex Products

### **FINRA Adopts Amendments Relating to Protected Option and Warrant Positions Under FINRA Rule 4210**

FINRA amended FINRA Rule 4210 (Margin Requirements) to establish a specified exception under the margin rules with respect to certain short option or warrant positions on indexes that are written against products that track the same underlying index. Referred to as “protected” option or warrant positions, the new exception conforms with similar provisions Cboe recently adopted. The amendments became effective on March 19, 2024.

- [FINRA Regulatory Notice 24-08 \(March 19, 2024\)](#): FINRA Adopts Amendments Relating to Protected Option and Warrant Positions Under FINRA Rule 4210

### **Special Purpose Acquisition Companies, Shell Companies, and Projections**

The SEC adopted rules intended to enhance investor protections in initial public offerings by special purpose acquisition companies (commonly known as SPACs) and in subsequent business combination transactions between SPACs and private operating companies (commonly known as de-SPAC transactions). Specifically, the SEC adopted disclosure requirements with respect to, among other things, compensation paid to sponsors, conflicts of interest, dilution, and the determination, if any, of the board of directors (or similar governing body) of a SPAC regarding whether a de-SPAC transaction is advisable and in the best interests of the SPAC and its shareholders. The SEC adopted rules that require a minimum dissemination period for the distribution of security holder communication materials in connection with de-SPAC transactions. The SEC adopted rules that require the re-determination of smaller reporting company (“SRC”) status in connection with de-SPAC transactions. The SEC also adopted rules that address the scope of the safe harbor for forward-looking statements under the Private Securities Litigation Reform Act of 1995. Further, the SEC adopted a rule that would deem any business combination transaction involving a reporting shell company, including a SPAC, to be a sale of securities to the reporting shell company’s shareholders and are adopting amendments to a number of financial statement requirements applicable to transactions involving shell companies. In addition, the SEC provided guidance on the status of potential underwriters in de-SPAC transactions and adopting updates to our guidance regarding the use of projections in Commission filings as well as requiring additional disclosure regarding projections when used in connection with business combination transactions involving SPACs. Finally, the SEC provided guidance for SPACs to consider when analyzing their status under the Investment Company Act of 1940. The final rules become effective on July 1, 2024.

- [SEC Release Number 33-11265, 34-99418 and IC-35096 \(January 24, 2024\)](#): Special Purpose Acquisition Companies, Shell Companies, and Projections (Final Rules; Guidance)

## Municipal Securities

### SEC Approves Amendment to MSRB Rule G-12 to Promote the Completion of Allocations, Confirmations, and Affirmations by the End of Trade Date

On February 7, 2024, the Municipal Securities Rulemaking Board (MSRB) received approval from the SEC to amend MSRB Rule G-12, on uniform practice, to promote the completion of allocations, confirmations, and affirmations by the end of trade date for municipal securities transactions between brokers, dealers and municipal securities dealers (“dealers”) and their institutional customers. The amendment to Rule G-12, which establishes new section (k) of the rule, is designed to facilitate the move to a settlement cycle for municipal securities transactions of one business day (“T+1”) and aligns with the same-day allocation, confirmation, and affirmation process for equities and corporate bonds required by new Rule 15c6-2 (“Exchange Act Rule 15c6-2”) under the Exchange Act. Exchange Act Rule 15c6-2 was adopted by the SEC to facilitate the move to a T+1 settlement cycle for such other securities markets.

- [MSRB Regulatory Notice 2024-03 \(February 8, 2024\)](#): SEC Approves Amendment to MSRB Rule G-12 to Promote the Completion of Allocations, Confirmations, and Affirmations by the End of Trade Date

## Settlement

### FINRA Adopts Amendments to Conform its Rules to the T+1 Settlement Cycle

FINRA has adopted amendments to conform its rules to the SEC’s amendments to Rule 15c6-1 and adoption of Rule 15c6-2 under the Securities Exchange Act of 1934 to shorten the standard settlement cycle for most broker-dealer transactions from two business days after the trade date (T+2) to one business day after the trade date (T+1). The amendments revise provisions in the following FINRA rules:

- FINRA Rule 2341 (Investment Company Securities)
- FINRA Rule 4515 (Approval and Documentation of Changes in Account Name or Designation)
- FINRA Rule 6282 (Transactions Reported by Members to the ADF)
- FINRA Rule 6380A (Transaction Reporting)
- FINRA Rule 6380B (Transaction Reporting)
- FINRA Rule 6622 (Transaction Reporting)
- FINRA Rule 7140 (Trade Report Processing)
- FINRA Rule 7240A (Trade Report Processing)
- FINRA Rule 7340 (Trade Report Processing)
- FINRA Rule 11140 (Transactions in Securities “Ex-Dividend,” “Ex-Rights” or “Ex-Warrants”)
- FINRA Rule 11150 (Transactions “Ex-Interest” in Bonds Which Are Dealt in “Flat”)
- FINRA Rule 11210 (Sent by Each Party)
- FINRA Rule 11320 (Dates of Delivery)
- FINRA Rule 11620 (Computation of Interest)
- FINRA Rule 11860 (COD Orders)
- FINRA Rule 11893 (Clearly Erroneous Transactions in OTC Equity Securities)
- FINRA Rule 11894 (Review by the Uniform Practice Code (“UPC”) Committee)

The amendments to these rules become operative on May 28, 2024, which is the compliance date the SEC announced for amended Rule 15c6-1 and new Rule 15c6-2, or such later date as the SEC may announce for compliance with such rules.

- [FINRA Regulatory Notice: 24-04 \(February 26, 2024\)](#): FINRA Adopts Amendments to Conform its Rules to the T+1 Settlement Cycle

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## Firm Operations

### Books & Records

#### **FINRA Reminds Member Firms of Net Capital, Recordkeeping and Financial Reporting Requirements in Connection with Revenue Recognition Practices**

Through its examinations of member firms, FINRA has observed instances of non-compliance with SEA Rule 15c3-1, SEA Rule 17a-3 and SEA Rule 17a-5 resulting from misapplication of the Financial Accounting Standards Board’s Accounting Standard Codification 606, Revenue from Contracts with Customers (“ASC 606”). This Notice provides guidance regarding potential compliance issues with respect to these rules that may result from the misapplication of ASC 606.

- [FINRA Regulatory Notice: 23-21 \(December 22, 2023\)](#): FINRA Reminds Member Firms of Net Capital, Recordkeeping and Financial Reporting Requirements in Connection with Revenue Recognition Practices

#### **Modernization of Beneficial Ownership Reporting**

On October 10, 2023, the Commission adopted amendments to certain rules that govern beneficial ownership reporting. The amendments generally shorten the filing deadlines for initial and amended beneficial ownership reports filed on Schedules 13D and 13G. The amendments also clarify the disclosure requirements of Schedule 13D with respect to derivative securities. The SEC also expanded the timeframe within a given business day by which Schedules 13D and 13G must be filed, and separately requiring that Schedule 13D and 13G filings be made using a structured, machine-readable data language. Further, as discussed in the adopting release, under the current rules, an investor’s use of a cash-settled derivative security may result in the person being treated as a beneficial owner of the class of the reference equity security. The SEC also provided guidance on the application of the current legal standard found in Section 13(d)(3) and 13(g)(3) of the Securities Exchange Act of 1934 to certain common types of shareholder engagement activities. Finally, the SEC made certain technical revisions. The amendments became effective on February 5, 2024, but the adopting release specifies compliance dates.

- [SEC Release Numbers 33-11253; 34-98704 \(October 10, 2023\)](#): Modernization of Beneficial Ownership Reporting (Final Rule; Guidance)

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## Reporting

### **(New) FINRA Reminds Members of Regulatory Obligations When Using Generative Artificial Intelligence and Large Language Models**

Artificial intelligence (AI), including large language models (LLMs) and other generative AI (Gen AI) tools, present promising opportunities for member firms to enhance their products and services for investors and achieve operational and compliance efficiencies. As member firms incorporate the use of Gen AI or similar tools into their businesses, they should be mindful of the potential implications for their regulatory obligations. In addition, FINRA reminds its member firms that FINRA's rules—which are intended to be technology neutral—and the securities laws more generally, continue to apply when member firms use Gen AI or similar technologies in the course of their businesses, just as they apply when member firms use any other technology or tool.

- [FINRA Regulatory Notice 24-09 \(June 27, 2024\)](#): FINRA Reminds Members of Regulatory Obligations When Using Generative Artificial Intelligence and Large Language Models

### **FINRA Adopts Amendments to Enhance Post-Trade Transparency in the U.S. Treasury Securities Market**

FINRA adopted amendments to disseminate individual transactions in active U.S. Treasury securities at the end of the day and historically, and to set related fees for members and other professionals who choose to subscribe to the new data set. This new transaction-level data will be publicly available and free of charge on FINRA's website for non-professionals' personal, non-commercial purposes on a next-day basis.

The amendments relating to the end-of-day data product became effective on March 25, 2024, and the amendments relating to the historic data product became effective on April 1, 2024.

- [FINRA Regulatory Notice: 24-06 \(March 8, 2024\)](#): FINRA Adopts Amendments to Enhance Post-Trade Transparency in the U.S. Treasury Securities Market

### **FINRA Adopts Amendments to Improve the Accessibility of Order Routing Disclosures for NMS Securities**

FINRA adopted new Rule 6151 (Disclosure of Order Routing Information for NMS Securities) to require members to submit to FINRA for centralized publication the order routing reports required under the SEC's Rule 606(a) (Rule 606(a) Reports). These amendments became effective on June 30, 2024. Therefore, members were required to submit their Q2 2024 Rule 606(a) Reports to FINRA no later than July 31, 2024.

- [FINRA Regulatory Notice: 24-05 \(February 26, 2024\)](#): FINRA Adopts Amendments to Improve the Accessibility of Order Routing Disclosures for NMS Securities

### **FINRA Adopts FINRA Rule 3110.19 (Residential Supervisory Location) and FINRA Rule 3110.18 (Remote Inspections Pilot Program), and Announces End of Temporary Relief Related to Updates of Office Information on Forms U4 and BR**

FINRA issued Regulatory Notice 24-02 to announce the effective dates of two new supplementary materials under FINRA Rule 3110 (Supervision) as follows:

- Rule 3110.19 (Residential Supervisory Location) becomes effective on June 1, 2024; and
- Rule 3110.18 (Remote Inspections Pilot Program) becomes effective on July 1, 2024.

The rule text for Rules 3110.18 and 3110.19 is available in Attachment A.

In addition, FINRA announced May 31, 2024, as the end date of the regulatory relief set forth in Regulatory Notice 20-08 with respect to the obligation of firms to maintain current information for employment addresses and branch offices on specified uniform registration forms. In light of these changes, firms are encouraged to consult with FINRA's Membership Application Program Group as they consider the materiality of any potential increase in the number of offices or locations.

- [FINRA Regulatory Notice: 24-02 \(January 23, 2024\)](#): FINRA Adopts FINRA Rule 3110.19 (Residential Supervisory Location) and FINRA Rule 3110.18 (Remote Inspections Pilot Program), and Announces End of Temporary Relief Related to Updates of Office Information on Forms U4 and BR

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### **Additional Resources**

- For more information visit the [cecouncil.com](https://cecouncil.com) website or contact CE Council member organizations.
- For compliance resources on issues affecting the security issue please visit [FINRA Key Topics](#) page.
- For insight into FINRA's findings into recent oversight activities of FINRA's Member Supervision, Market Regulation and Enforcement programs, please visit the [Report on FINRA's Examination and Risk Monitoring Program](#).
- For the SEC's priorities of examinations of certain practices, products and services, please see The Division of Examinations [report](#).