Introduction

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

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

The Council suggests that firms use the FEA as an aid in developing and updating their Firm Element needs analysis and written training plans. However, firms are reminded that they should not rely on the FEA as a comprehensive list of all areas they should consider. Firms should, among other things, review current and previous FEAs to determine which topics are relevant for inclusion in their training based on their product offerings, structure and business line(s).

All new material in the FEA is denoted by a “(New)” next to the appropriate title. Material from previous editions that the Council has updated is denoted with an “(Updated)” next to the appropriate title. A matrix indicating topic coverage in previous FEAs is available on the Council’s website at www.cecouncil.com.

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

In response to requests from firms for more resources to help them with Firm Element planning, the Council suggests the following tools they may use in addition to the FEA:
- **Guide to Firm Element Needs Analysis and Training Plan Development**: Suggestions for effectively performing the needs analysis and developing written training plans.

- **Continuing Education Regulatory Element Report**: A quarterly report, available through FINRA’s Report Center that compares a firm’s Regulatory Element Continuing Education performance with the industry at large for the same programs and modules. Firms should review the performance of their registered persons since the last need 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](https://reports.finra.org).

- **FINRA’s 2015 Regulatory and Examination Priorities Letter**: A letter issued annually by FINRA that highlights new and existing areas of significance to FINRA’s examination program which may be useful when developing educational programs within a firm.

- **SEC Office of Compliance Inspections and Examinations - Examination Priorities for 2015**: A letter issued annually by the SEC to communicate with investors and registrants about areas that are perceived by the SEC staff to have heightened risk, and to support the SEC’s mission to protect investors.

- **CBOE Regulatory Circular RG14-114 (July 2014)**: The Chicago Board Options Exchange’s publication of its 2014 examinations program priorities highlights risks and issues. The priorities highlight areas of focus to the 2014 examinations program.

- **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.

**Reminder**

Individuals are required to use either their Central Registration Depository (CRD®) or FINRA ID number to schedule an exam or CE appointment at Prometric or Pearson VUE testing centers. All non-FINRA candidates who enroll using the Form U10 will be assigned a FINRA ID number for scheduling purposes.

Please note that the Form U10 is now only available for online submission; hard copy forms mailed to FINRA are no longer accepted.

**Questions?**

For more information, contact:

- [cecounciladmin@finra.org](mailto:cecounciladmin@finra.org); or
- Roni Meikle, Director, Continuing Education, FINRA, at (212) 858-4084.

**ALTERNATIVE INVESTMENTS**

*(New)* **Direct Participation Program and Unlisted REIT Securities**

The SEC approved an amendment to NASD Rule 2340 (Customer Account Statements) to modify the requirement 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 an amendment to FINRA Rule 2310, 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.

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

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

- **FINRA Investor Alert (June 2013):** Alternative Funds Are Not Your Typical Mutual Funds

Supervision of Complex Products

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

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

- **FINRA Regulatory Notice 12-03 (January 2012):** Heightened Supervision of Complex Products

- Heightened Supervision of Complex Products (Part 1)
  [Listen Now/Download] 7 min. 50 sec.

- Heightened Supervision of Complex Products (Part 2)
  [Listen Now/Download] 11 min. 15 sec.
ANTI-MONEY LAUNDERING

Anti-Money Laundering (AML) Compliance

Firms must maintain current AML programs and train staff appropriately. 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 updated the AML Template for Small Firms to reflect FINRA Rule 3310 (Anti-Money Laundering Compliance Program) and provides a three-part podcast series that guides firms through the process of setting up AML compliance and supervisory procedures.

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

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

- **AML Source Tool for Broker-Dealers (June 20, 2012)**

SAR Information Accessibility

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

- **FinCEN Guidance**
- **SEC Letter to FINRA (January 26, 2012)**

**SAR Alert Message Line**

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

- **SAR Alert Message Line**

**BUSINESS CONTINUITY**

**Business Continuity Planning**

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

- **FINRA Industry Issues: Business Continuity Planning**

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

- **FINRA Small Introducing Firm Business Continuity Planning Template**
- **FINRA Business Continuity Planning Template**
  [Listen Now/Download] 7 min. 30 sec.
FINRA, the SEC and CFTC issued a joint advisory on business continuity planning to encourage firms to review their business continuity plans and to provide best practices to help improve responses to, and to reduce recovery time after, significant large-scale events.

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

## COMMUNICATIONS WITH THE PUBLIC

### SEC Approved Amendments to FINRA Rule 2210 to Exclude Research Reports on Exchange-Listed Securities from Filing Requirements

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

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

### FINRA Provides Guidance on Rules Governing Communications with the Public

Effective February 4, 2013, FINRA Rules 2210 and 2212 through 2216 (collectively, the Communication Rules) replaced NASD Rules 2210 and 2211, and a number of NASD Interpretive Materials that followed NASD Rule 2210, along with certain provisions of Incorporated NYSE Rule 472 and certain Supplementary Material and Rule Interpretations related to NYSE Rule 472. Notably, the Communication Rules reduce the number of communication categories from six to three: institutional communication, retail communication and correspondence. The Communication Rules also impose filing and content requirements on communications with the public.
FINRA Regulatory Notice 13-03 (January 2013): FINRA Provides Guidance on New Rules Governing Communications With the Public

These two podcasts discuss the communication categories and content standards in FINRA's consolidated Communications with the Public rule.

- 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

Advertising Regulation Issues

FINRA issued guidance on communications with the public concerning unlisted real estate investment programs, including unlisted real estate investment trusts (REITs) and unlisted direct participation programs (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

This podcast discusses the guidance in the Notice.

- Communications with the Public: Real Estate Investment Programs
  Listen/Download Now | 11 min. 8 sec.

- Communications with the Public Consolidated Rule – Part 1
  Listen/Download Now | 6 min. 35 sec.

Social Networking Websites and Business Communications

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

- Electronic Communications with the Public – Part 2
  Listen Now/Download | 6 min. 9 sec.
FINRA issued this Notice to provide guidance to firms on how FINRA’s rules apply to business communications through social media sites and other new technologies, including personal devices. The guidance covers recordkeeping, suitability, communications with the public, supervision and other compliance concerns.

- **FINRA Regulatory Notice 11-39 (August 2011):** Guidance on Social Networking Websites and Business Communications

**CORPORATE FINANCE**

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

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

**SEC Approves Amendments to FINRA Rule 5110 to Permit Termination Fees and Rights of First Refusal; Provide an Exemption from the Filing Requirements for Certain Collective Investment Vehicles; and Clarify the Electronic Filing Requirement**

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

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

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

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

**CUSTOMER ACCOUNTS**

*(New)* Extended Hours Trading Risk Disclosure

FINRA reminds firms of their obligations under FINRA Rule 2265 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 FINRA Rule 2265 as well as any additional disclosure as necessary to address product-specific or other specific needs.

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

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

FINRA updated 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 updated this alert to keep investors informed about some of the latest online identify theft scams targeting financial sector customers and to provide tips for spotting and avoiding these scams.

- **FINRA Investor Alert (July 2014):** “Phishing” and Other Online Identity Theft Scams: Don't Take the Bait
Fair and Accurate Credit Transactions Act of 2003 (FACT Act)
Red Flags Rule

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

- FINRA Red Flags Rule Web Page
- FTC’s Red Flags Rule Template
  Listen Now/Download | 7 min. 29 sec.
- SEC Small Entity Compliance Guide
- Identity Theft Red Flags Rules (Joint Final Rules and Guidelines)
  78 FR 23638 (April 19, 2013))

Rollovers to Individual Retirement Accounts

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

- **FINRA Regulatory Notice 13-45 (December 2013):** FINRA Reminds Firms of Their Responsibilities Concerning IRA Rollovers

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

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

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

This podcast discusses the guidance from the Notice.

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

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

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

(New) 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.


(New) SEC Approves Amendments to the Arbitration Codes to Expand Arbitrators’ Authority to Make Referrals During an Arbitration Proceeding

The SEC approved amendments to the Code of Arbitration Procedures for Customer Disputes (Customer Code) and the Code of Arbitration Procedures for Industry Disputes (Industry Code) to permit arbitrators to make a referral, during an arbitration, of any matter or conduct that has come to the arbitrator’s attention during a hearing, which the arbitrator has reason to believe poses a serious threat whether ongoing or imminent, that is likely to harm investors unless immediate action is taken. The amendments were effective on October 27, 2014.

FINRA Regulatory Notice 14-42 (October 2014): SEC Approves Amendments to the Arbitration Codes to Expand Arbitrators’ Authority to Make Referrals During an Arbitration Proceeding
SEC Approves Amendments to Codes of Arbitration Procedure to Require Redaction of Personal Confidential Information From Documents Filed with FINRA Dispute Resolution

The SEC approved amendments to the Codes to provide that any document that a party files with FINRA that contains an individual’s Social Security number, taxpayer identification number or financial account number must be redacted to include only the last four digits of any of these numbers. The amendments apply only to documents filed with FINRA. They do not apply to documents that parties exchange with each other or submit to the arbitrators at a hearing on the merits. Also, the amendments do not apply to cases administered under the Simplified Arbitration rules. The amendments were effective on July 28, 2014.

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

SEC Approves FINRA Rule 2081 Regarding 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 CRD. The rule was effective on July 30, 2014.

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

Expungement of Information from CRD

FINRA Rules 12805 and 13805, both covering the expungement of customer dispute information under FINRA Rule 2080, 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 expungement occurs only when the arbitrators find and document one of the narrow grounds specified in FINRA Rule 2080 (Obtaining an Order of Expungement of Customer Dispute Information from the Central Registration Depository (CRD) System). 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 and as guidance for arbitrators when considering expungement requests. FINRA periodically updates this guidance, which was recently done in 2014.

- Notice to Arbitrators and Parties on Expanded Expungement Guidance

**FINANCIAL RESPONSIBILITY RULES FOR BROKER-DEALERS**

*(Updated)* SEC’s Financial Responsibility Rule Amendments

In July 2013, the SEC adopted amendments to the net capital, customer protection, books and records, and notification rules and amended the annual reporting and audit requirements under SEA Rule 17a-5. Among other things, the amendments establish a new Form Custody that all registered broker-dealers must file at specified times with their designated examining authority. Since the amendments were adopted, the SEC has issued a number of pronouncements, including, in addition to the original Adopting Releases, a temporary exemptive Order, no-action letters, Frequently Asked Questions (FAQs) and updated Interpretations of the Financial and Operational Rules, as announced in FINRA Regulatory Notices, as discussed below.

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


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


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

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

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

- **Frequently Asked Questions Concerning the Amendments to Certain Broker-Dealer Financial Responsibility Rules, Division of Trading and Markets (March 6, 2014)**
- **Frequently Asked Questions Concerning the July 30, 2013 Amendments to the Broker-Dealer Financial Reporting Rule, Division of Trading and Markets (April 4, 2014)**

**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 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

(Updated) FINRA System Updates

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

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

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


FINRA Financial Responsibility Rule Amendments Resource Page

For the convenience of firms, FINRA has created on its website a resource page designed to compile key FINRA and SEC materials relating to the SEC’s financial responsibility rule amendments and their implementation.
SEC Approves New Consolidated FINRA Financial and Operational Rules

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

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

MARGIN AND MARGIN ACCOUNTS

SEC Approves Amendments to FINRA Rule 2360 (Options) and FINRA Rule 4210 (Margin Requirements) in Connection with OTC Options Cleared by the OCC

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

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

(New) SEC Approves Rule Amendments to Create Professional Qualification Standards for Municipal Advisors

The SEC approved amendments to Rule G-1, on separately identifiable department or division of a bank; Rule G-2, on standards of professional qualification; Rule G-3, on professional qualification requirements; and Rule G-13, on municipal advisory activities, to establish professional qualification requirements for municipal advisors and make related technical rule changes. The amendments to Rule G-3 establish two new registration classifications for municipal advisors: (a) municipal advisor representatives—those individuals who engage in municipal advisory activities; and (b) municipal advisor principals—those individuals who engage in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons. To qualify as a municipal advisor representative or municipal advisor principal, an individual must pass the municipal advisor representative qualification examination (the Series 50 examination). The rule amendments become effective on April 27, 2015.

➤ **MSRB Regulatory Notice 2015-04 (March 2015):** MSRB to Amend Rules to Create Professional Qualification Standards for Municipal Advisors

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

The SEC approved the first explicit best-execution rule for transactions in municipal securities, MSRB Rule G-18. The MSRB also received approval of related amendments to MSRB Rule G-48, on transactions with sophisticated municipal market professionals (SMMPs), and MSRB Rule D-15, on the definition of an SMMP. The rule amendments become effective on December 7, 2015.

➤ **MSRB Regulatory Notice 2014-22 (December 2014):** SEC Approves MSRB Rule G-18 on Best Execution of Transactions in Municipal Securities and Related Amendments to Exempt Transactions with Sophisticated Municipal Market Professionals
(New) SEC Approves Amendments to MSRB Rule G-3 Regarding Continuing Education

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

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

(New) SEC Approves 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 become effective date on April 23, 2015, except for Rule G-44(d), which will become effective on April 23, 2016.

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

SEC Approves Amendments to MSRB Rule G-3 on Professional Qualification Requirements

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

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

SEC Approves Adoption of New MSRB Rules G-47, D-15 and G-48, and Amendments to MSRB Rules G-19 and G-8

The SEC approved the adoption of new MSRB Rule G-47, on time-of-trade disclosure obligations, new MSRB Rules D-15 and G-48, on sophisticated municipal market professionals (SMMPs), and revisions to MSRB Rules G-19, on suitability of recommendations and transactions, and G-8 on books and records.

The MSRB examined its interpretive guidance related to time-of-trade disclosures, SMMPs, and suitability and has consolidated the guidance and codified it into the several new rules. In addition, the revisions to Rule G-19 are intended to harmonize the MSRB’s suitability rule with FINRA’s suitability rule. The revisions to Rule G-8, on books and records, are technical changes to conform the rule to revised Rule G-19. The rule amendments were effective on July 5, 2014.
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

Retail Order Periods

Dealers are reminded the MSRB rules have been amended to include provisions specifically tailored to retail order periods. MSRB Rule G-11, on primary offering practices, establishes basic protections for issuers and investors, and provides additional tools to assist with the administration and examination of retail order period requirements by, among other things, enhancing the communications between the senior syndicate manager and members of the syndicate and selling group and requiring dealers to capture additional information in connection with orders placed under a retail order period. Rule G-8, on books and records, requires that records maintained by a senior syndicate manager or sole underwriter include information relating to each order designated as retail submitted during a retail order period. The rule also requires a syndicate manager or sole underwriter to maintain records of all pricing information. Rule G-32, on disclosures in connection with primary offerings, allows the MSRB to identify, for regulatory purposes only, offerings with a retail order period through its Electronic Municipal Market Access (EMMA®) system. The amendments were effective March 31, 2014.
**MSRB Regulatory Notice 2013-20 (September 2013):** SEC Approves Amendments to MSRB Rules G-11, G-8 and G-32 to Include Provisions Specifically Tailored for Retail Order Periods

**North American Securities Administrators Association (NASAA)**

**(New) Electronic Filing Depository**

NASAA launched its 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. The EFD website became available on December 15, 2014.

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

**OPTIONS**

**(New) Trade Nullification and Price Adjustment Procedure**

Effective September 25, 2014, new CBOE Rule 6.19 provides that a trade may be nullified or the price adjusted, on the terms that all parties to a particular transaction agree; provided, however, that any trade nullified or adjusted pursuant to this Rule be authorized by the CBOE prior to nullification or adjustment.

- **CBOE Regulatory Circular RG14-141 (October 2014):** Trade Nullification and Price Adjustment Procedure

**(New) 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 requires each Trading Permit Holder (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. The implementation date for the marking and reporting obligations for Tied to Stock Orders originally set for February 9, 2015, has been delayed. Any new compliance date and any changes to the types of data required
and/or the uniform file structures and formats will be announced via regulatory circular or rule filing.

- **CBOE Regulatory Circular RG14-171 (December 2014):** Tied to Stock Order Marking and Reporting Requirements

- **CBOE Regulatory Circular RG15-018 (February 2015):** Delayed Implementation of Tied to Stock Order Marking and Reporting Requirements

**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 RG14-091 (June 2014):** Prearranged Trades

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

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

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

**Notification to the CBOE of Disciplinary Action**

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

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

### Standard Monthly Option Expiration Date Moved From Saturday to Friday

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

- **CBOE Regulatory Circular RG13-118 / C2 Regulatory Circular RG 13-041 (August 2013):** Standard Monthly Option Expiration Date Move from Saturday to Friday

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

Transactions Below $1 Per Option Contract

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


REGISTRATION AND DISCLOSURE

(New) SEC Approves Registration Background Check

The SEC approved FINRA’s proposal to require broker-dealers to perform public record background checks on their FINRA registration applicants within 30 days of filing.

The new rule, FINRA Rule 3110(e), stipulates time sensitive requirements to verify the accuracy of an applicant’s Form U4 (Uniform Application for Securities Industry Registration or Transfer), and update written procedures. The implementation date is July 1, 2015.

NASAA approves of FINRA’s recent adoption of Rule 3110(e), which requires firms to have in place more rigorous verification procedures concerning information disclosed in the Form U4. In NASAA’s view the new rule will contribute to ensuring the accuracy and completeness of the information disclosed in Form U4, which provides information used by regulators to make decisions on applicants’ registrations. NASAA, however, is concerned with issues related the training and supervision of newly hired representatives who may have been the subject of customer complaints or disciplinary proceedings.

- FINRA Regulatory Notice 15-05 (March 2015): SEC Approves Consolidated FINRA Rule Regarding Background Checks on Registration Applicants
(New) SEC Approves Proposed FINRA Rule 2040 Payments to Unregistered Persons in the Consolidated FINRA Rulebook

FINRA Rule 2040 (Payments to Unregistered Persons) regarding the payment of transaction-based compensation by member firms to an unregistered person and FINRA Rule 0190 (Effective Date of Revocation, Cancellation, Explosion, Suspension or Resignation) were approved on December 30, 2014. The rules streamline provisions of NASD Non-Member Rules and align with Section 15(a) of the Exchange Act and its related guidance to determine whether registration as a broker-dealer is required for certain persons to receive transaction-related compensation and to engage in related activities. The rule change also amended FINRA Rule 8311 (Effect of a Suspension, Revocation, Cancellation, or Bar).

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

(New) Enforcement Actions Against Licensed Broker Sales Agents

NASAA announced a significant rise in the number of formal enforcement actions initiated by state securities regulators in 2013 against licensed broker-dealer sales agents as well as unlicensed individuals and firms. The 2014 Enforcement Report on 2013 Data includes responses from 51 individual jurisdictions throughout the United States and provides the numbers of complaints received, and investigations and actions states have conducted or initiated. For more information related to the enforcement actions download the 2014 Enforcement Report on 2013 Data at [www.nasaa.org](http://www.nasaa.org).

Unregistered Sales Assistants

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

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

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

- **FINRA Regulatory Notice 14-33 (August 2014):** FINRA Revises the Series 24 and 23 Examination Programs

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

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

**BrokerCheck®**

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

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 were 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

### Revised Form BR

**SEC Approves Amendments to Uniform Branch Office Registration Form (Form BR)**

The SEC approved amendments to Form BR, which firms use to register their branch offices with FINRA, the NYSE, and participating states via the CRD system. Form BR enables a firm to register a branch office (either by notice filing or approval) as required by the relevant jurisdiction or SRO, amend a registration, close or terminate a registration, or withdraw a filing in the appropriate participating jurisdiction and SRO. In concert with a committee of industry representatives, the NASAA and participating states, FINRA undertook a review of Form BR. As a result of this review, Form BR has been amended to:

- eliminate Section 6 (NYSE Branch Information), which was previously applicable only to NYSE-registered firms;
- add questions relating to space sharing arrangements and the location of books and records that were previously only in Section 6 and make them applicable to all firms;
- modify previously existing questions and instructions to provide more detailed selections for describing the types of activities conducted at the branch office;
• add an optional question to identify a branch office as an “Office of Municipal Supervisory Jurisdiction” (OMSJ), as defined under the rules of the Municipal Securities Rulemaking Board (MSRB); and
• make other technical changes to adopt uniform terminology and clarify questions and instructions (revised Form BR).

The revised Form BR was effective on April 7, 2014.

➤ **FINRA Regulatory Notice 14-11 (March 2014):** SEC Approves Amendments to Uniform Branch Office Registration Form (Form BR)

**SALES PRACTICE AND SUPERVISION**

**Supervision Rules**

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

➤ **Regulatory Notice 14-10 (March 2014):** SEC Approves New Supervision Rules

**Know-Your-Customer and Suitability Obligations**

FINRA Rule 2090 (Know Your Customer) requires a firm to use “reasonable diligence, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer.” FINRA Rule 2111 (Suitability) requires a firm or associated person to “have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer’s investment profile.”
FINRA Regulatory Notice 13-31 (September 2013): FINRA Highlights Examination Approaches, Common Findings and Effective Practices for Complying With its Suitability Rule

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

FINRA Industry Issues Center: Suitability

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

FINRA Investor Information: Understanding Professional Designations

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

TRADING PRACTICES AND SUPERVISION

SEC Approves Rule Changes Relating to Clearly Erroneous Executions

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


SEC Approves Consolidated FINRA Best Execution Rule

The SEC approved FINRA’s adoption of FINRA Rules 5310 (Best Execution and Interpositioning) and 6438 (Displaying Priced Quotations in Multiple Quotation Mediums) in the consolidated rulebook. FINRA Rule 5310 is the rule governing
members’ best execution requirements that is based largely on NASD Rule 2320 (Best Execution and Interpositioning). The Supplementary Material to Rule 5310 draws substantially from NASD IM-2320 (Interpretive Guidance with Respect to Best Execution Requirements) but includes several new provisions concerning securities with limited quotation or pricing information available, foreign securities, customer instructions on routing orders, and regular and rigorous review of execution quality. The rules were effective on May 31, 2012.

- **FINRA Regulatory Notice 12-13 (March 2012):** SEC Approves Consolidated FINRA Best Execution Rule

### Payments for Market Making Certification

FINRA adopted an additional certification under Rule 6432 (Compliance with the Information Requirements of SEA Rule 15c2-11) that requires firms to certify to FINRA that neither the firm nor its associated persons have accepted or will accept any payment or other consideration, directly or indirectly, from the issuer of the security to be quoted, or any affiliate or promoter thereof, for publishing a quotation or acting as market maker in the security to be quoted, or submitting an application in connection therewith, including the submission of the Form 211. FINRA issued a Notice announcing the rule amendment and reminding firms and associated persons of the FINRA Rule 5250 (Payment for Market Making) prohibition on accepting payments for market making, which includes payment for filing a Form 211 pursuant to FINRA Rule 6432. Firms must certify pursuant to the new requirement on submitted Form 211s beginning on the effective date. The amendments were effective immediately upon filing on July 7, 2014.

- **FINRA Regulatory Notice 14-26 (June 2014):** Prohibition on Payments for Market Making

### Limit Up/Limit Down Plan Pilot Program

On May 31, 2012, the SEC approved, on a pilot basis, a National Market System Plan, known as the Limit Up/Limit Down Plan or LULD, to address extraordinary market volatility. The Plan is designed to prevent trades in individual NMS Stocks from occurring outside of specified price bands, which will be set at a percentage level above and below the average price of a security over the preceding five-minute period, as set forth in the Plan. Phase 1 began on April 8, 2013, along with the modified market wide circuit breakers. Phase 2 began on August 5, 2013. The Plan currently is scheduled to expire on October 23, 2015.
FINRA Alert on Limit Up/Limit Down (LULD) Plan (February 2013)

FINRA Regulatory Notice 13-12 (March 2013): FINRA Adopts Amendments Relating to Regulation NMS Plan to Address Extraordinary Market Volatility

FINRA has published two charts to assist members in identifying the types of transactions that are excluded from the price bands under the LULD Plan and FAQs to provide guidance on LULD.

Insider Trading

New consolidated FINRA Rule 3110 (Supervision) includes a provision to help firms comply with their obligation under Section 15(g) of the SEA to have policies and procedures in place reasonably designed to prevent potential insider trading. Rule 3110(d) requires that firms include in their supervisory procedures a process for reviewing securities transactions in certain types of accounts that is reasonably designed to identify trades that may violate insider trading prohibitions. When implementing these policies and procedures, firms may take a risk-based approach to monitoring transactions that takes into account their specific business models. Rule 3110 became effective on December 1, 2014.

SEC Staff Summary Report on Examinations of Information Barriers: Broker-Dealer Practices Under Section 15(g) of the SEA (September 2012)

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

SEC Enforcement Actions: Insider Trading Cases
TRANSACTION REPORTING AND DATA DISSEMINATION

(New) FINRA Announces Elimination of OTC Bulletin Board Historical Research Reports, Fees for ORF Trade Reporting and Data

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

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

SEC Approves FINRA Rule Concerning Self-Trades

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

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

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

FINRA filed a rule change and issued a Notice providing 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. FINRA issued a Notice announcing an effective date of June 16, 2014, on which date all firms were required to report transactions in covered hybrid securities to the Trade Reporting and Compliance Engine (TRACE), consistent with the guidance provided in the interpretation. A list of covered hybrid securities moved from the OTC Reporting Facility) to TRACE on June 16, 2014, is attached to the Notice.

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

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

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

- **FINRA Regulatory Notice 13-38 (November 2013):** FINRA and ISG Extend Effective Date for Certain Electronic Blue Sheet Data Elements

- **FINRA Regulatory Notice 13-16 (April 2013):** FINRA and ISG Extend Effective Date for Certain Electronic Blue Sheet Data Elements

- **CBOE Regulatory Circular RG13-074/C2 Regulatory Circular RG13-029 (May 2013):** CBOE and ISG Extend Effective Date for Certain Electronic Blue Sheet Data Elements

In addition, on August 8, 2013, the SEC announced further exemptive relief for certain broker-dealers and certain transactions from the recordkeeping and reporting requirements of SEA Rule 13h-1.
SEC Exemptive Order: Order Temporarily Exempting Certain Broker-Dealers and Certain Transactions from the Recordkeeping and Reporting Requirements of Rule 13h-1 under the SEA

Reporting of OTC Transactions in Equity Securities

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

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

The SEC approved amendments to FINRA rules governing the reporting of over-the-counter transactions in equity securities to the FINRA trade reporting facilities and orders in NMS stocks and OTC Equity Securities to the Order Audit Trail System (OATS). The amendments to the trade reporting rules relate to reporting (i) an additional time field for specified trades, (ii) execution time in milliseconds, (iii) reversals, (iv) trades executed on non-business days and trades that are more than one year old, and (v) “step-outs,” and also reflect changes in the processing of trades that are submitted to FINRA for clearing. In addition, the amendments codify existing OATS guidance regarding reporting order event times to OATS in milliseconds. The effective dates for the amendments are as follows: OATS: April 7, 2014; ADF and TRFs (millisecond reporting): November 10, 2014; ORF: November 17, 2014; and ADF and TRFs (remaining amendments): July 15, 2015.

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

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


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

- **FINRA Regulatory Notice 13-24 (July 2013):** FINRA Announces Modifications Regarding Historic TRACE Data

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

- **FINRA Trade Reporting Notice (August 2013):** Frequently Asked Questions Regarding TRACE Reporting

**(Updated)** SEC Approves Amendments to Disseminate Additional Asset-Backed Securities Transactions and to Reduce the Reporting Time for Such Transactions

The SEC approved amendments to the Trade Reporting and Compliance Engine (TRACE) rules and dissemination protocols to provide for dissemination of transactions in an additional group of asset-backed securities and to reduce the time frame for reporting such transaction, other than Fixed or List Price and
Takedown Transactions. Transactions in asset-backed securities effected pursuant to Securities Act Rule 144A also will be disseminated. The amendments will become effective on June 1, 2015.

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

**More Information and Resources:**

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

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