

Information Notice

FINRA Announces Rule 4111 (Restricted Firm Obligations) Evaluation Date

Summary

FINRA Rule 4111 (Restricted Firm Obligations) became effective on January 1, 2022. This *Notice* announces that the first “Evaluation Date” for Rule 4111 will be June 1, 2022.

Questions concerning this *Notice* should be directed to:

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Background & Discussion

FINRA previously announced the adoption of new rules to address firms with a significant history of misconduct.¹ New Rule 4111 (Restricted Firm Obligations) requires member firms that are identified as Restricted Firms to deposit cash or qualified securities in a segregated, restricted account; adhere to specified conditions or restrictions; or comply with a combination of such obligations.² The new rules and rule amendments became effective on January 1, 2022.

Rule 4111 establishes a multi-step, annual process through which FINRA will determine whether a member firm raises investor protection concerns substantial enough to require that it be designated (or re-designated) as a Restricted Firm and subject to additional obligations, including a Restricted Deposit Requirement. Each year’s Rule 4111 process will begin with a calculation of which member firms meet numeric thresholds based on firm-level and individual-level disclosure events, to identify member firms with a significantly higher level of risk-related disclosures as compared to similarly sized peers.³ Specifically, for each member firm, FINRA’s Department of Member Supervision (Member Supervision) “will compute annually (on a calendar-year basis) the Preliminary Identification Metrics to determine if the member meets the Preliminary Criteria for Identification.”⁴ There are six Preliminary Identification Metrics based on six categories of events or conditions.⁵

February 1, 2022

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Registered Representatives
- ▶ Registration
- ▶ Senior Management

Key Topics

- ▶ Firms with a Significant History of Misconduct

Referenced Rules & Notices

- ▶ FINRA Rule 4111
- ▶ Regulatory Notice 21-34

The date, each calendar year, as of which Member Supervision calculates the Preliminary Identification Metrics to determine if the member firm meets the Preliminary Criteria for Identification is the “Evaluation Date.”⁶ The Evaluation Date impacts numerous aspects of the annual calculation—including, among other things, what the Evaluation Period is,⁷ the number of Registered Persons In-Scope,⁸ and the number of Registered Persons Associated with Previously Expelled Firms⁹—and which firm-size Preliminary Identification Metrics Thresholds apply.¹⁰ The Evaluation Date will establish the date as of which all specified events that are reportable on the Uniform Registration Forms, or otherwise included in Rule 4111, would be included in the annual calculation of the Preliminary Criteria for Identification.¹¹

In [Regulatory Notice 21-34](#), FINRA explained that it would announce the first Evaluation Date no less than 120 calendar days before the first Evaluation Date. Pursuant to that commitment, FINRA announces that the first Evaluation Date will be Wednesday, June 1, 2022.¹² FINRA reiterates that the Evaluation Date is not the date when FINRA would actually perform the annual calculation of which member firms meet the Preliminary Criteria for Identification. Rather, FINRA plans to actually perform the annual calculation at least 30 days after the Evaluation Date, to account for the time between when relevant disclosure events occurred and when firms must report those events on the Uniform Registration Forms.

Resources for Firms

FINRA has published on its website a table that maps the various disclosure event categories that are defined in Rule 4111 (the Registered Person Adjudicated Events, Registered Person Pending Events, Registered Person Termination and Internal Review Events, Member Firm Adjudicated Events, and Member Firm Pending Events categories) to the relevant disclosure questions and fields on the Uniform Registration Forms and, where applicable, information released in BrokerCheck.¹³ This category mapping is provided as a tool to assist firms in understanding Rule 4111. The terms used in the mapping are defined in Rule 4111, which controls their meaning. The mapping guidance will be updated publicly as needed.

FINRA will be making public additional resources to assist member firms with Rule 4111. As FINRA explained in [Regulatory Notice 21-34](#), these will include a list of expelled firms that will be published on FINRA's website and an “early indicator calculation.” FINRA expects that the first early indicator calculations will be available in early June 2022. In addition, FINRA expects to publish on its website frequently asked questions (FAQs) concerning Rule 4111. FINRA will provide notice when these additional resources are available.

Endnotes

1. See *Regulatory Notice 21-34* (September 2021).
2. New Rule 9561 (Procedures for Regulating Activities Under Rule 4111) and amendments to Rule 9559 (Hearing Procedures for Expedited Proceedings Under the Rule 9550 Series) establish a new expedited proceeding to implement Rule 4111.
3. See Rule 4111(b); *Regulatory Notice 21-34*.
4. See Rule 4111(b); Rule 4111(i)(9) (defining “Preliminary Criteria for Identification”); Rule 4111(i)(10) (defining “Preliminary Identification Metrics”).
5. See Rule 4111(i)(10) (defining the “Preliminary Identification Metrics”). The six categories are Registered Person Adjudicated Events, Registered Person Pending Events, Registered Person Termination and Internal Review Events, Member Firm Adjudicated Events, Member Firm Pending Events, and Registered Persons Associated with Previously Expelled Firms. See Rule 4111(i)(4)(A)-(F).
6. See Rule 4111(i)(5) (defining “Evaluation Date”).
7. See Rule 4111(i)(6) (defining “Evaluation Period”).
8. See Rule 4111(i)(13) (defining “Registered Persons In-Scope”).
9. See Rule 4111(i)(4)(F) (defining “Registered Persons Associated with Previously Expelled Firms”).
10. See Rule 4111(i)(11) (defining the “Preliminary Identification Metrics Thresholds”).
11. See *Regulatory Notice 21-34*.
12. FINRA expects that, in subsequent years, the Evaluation Dates also will be on June 1. As explained in *Regulatory Notice 21-34*, FINRA will evaluate whether future adjustments of the annual Evaluation Date are warranted and would announce any changes in such date sufficiently in advance.
13. See Mapping of Disclosure Categories for Rule 4111, available at www.finra.org/compliance-tools/mapping-disclosure-categories-finra-rule-4111. There is a link to this mapping guidance in the Compliance Tools section of FINRA's website. See www.finra.org/compliance-tools.