



JUNE 2022

Firm Element Needs Analysis Quarterly Highlights

Formerly Known as Firm Element Advisory

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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.

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

Q2 2022 New Content Quick Reference

New:

- [FINRA Information Notice 4.19.22 \(April 19, 2022\)](#): Membership Application Program Transformation
- [FINRA Regulatory Notice 22-08 \(March 8, 2022\)](#): Complex Products and Options
- [CBOE Regulatory Circular 22-007 \(March 15, 2022\)](#): Option Customer Account Approval and Supervision
- [FINRA Regulatory Notice 22-11 \(April 19, 2022\)](#): FINRA Reminds Firms of Their Sales Practice Obligations for Alternative Mutual Funds

Upcoming:

- [FINRA Regulatory Notice 21-34 \(September 28, 2021\)](#): FINRA Adopts Rules to Address Firms with a Significant History of Misconduct

Firm Operations

Business Continuity Planning

Due to the recent outbreak of coronavirus disease (COVID-19), FINRA reminds member firms to consider pandemic-related business continuity planning, including whether their business continuity plans (BCPs) are sufficiently flexible to address a wide range of possible effects in the event of a pandemic in the United States. Each member firm is also encouraged to review its BCP to consider pandemic preparedness and to review its emergency contacts to ensure that FINRA has a reliable means of contacting the firm. This Notice also provides pandemic-related guidance and regulatory relief to member firms from some requirements. As coronavirus-related risks decrease, member firms should expect to return to meeting any regulatory obligations for which relief has been provided.

- [FINRA Regulatory Notice 20-08 \(March 9, 2020\)](#): Pandemic-Related Business Continuity Planning, Guidance and Regulatory Relief

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

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

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FINRA Membership

(New) FINRA Membership Application

The Notice shares key operational changes in FINRA's Membership Application Program (MAP) implemented to improve its effectiveness and efficiency (MAP Transformation), including establishing a centralized application intake function and aligning the program with the firm grouping model developed by FINRA's Member Supervision Department during its recent transformation.

- [FINRA Information Notice 4/19/22: Membership Application Program Transformation](#)

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Anti-Money Laundering

U.S Imposes Sanctions on Russian Entities and Individuals

The U.S. government has imposed sanctions in response to Russia's actions in Ukraine. FINRA is issuing this Notice to provide member firms with information about these recent actions. FINRA encourages member firms to continue to monitor the Department of Treasury's Office of Foreign Asset Control (OFAC) website for relevant information.

- [FINRA Regulatory Notice 22-06 \(February 25, 2022\)](#): FINRA Alerts Firms to Sanctions

AML Act of 2020 First Priorities Issued

FinCEN has [issued](#) the first government-wide priorities for AML and CFT, which was mandated by the AML Act of 2020. FinCEN also issued a [statement](#) to provide covered non-bank financial institutions, including broker-dealers, with guidance on how to approach the AML/CFT Priorities. FINRA is issuing this Notice to inform member firms of the AML/CFT Priorities and the Statement, and to encourage member firms to consider how to incorporate the AML/CFT Priorities into their risk-based AML compliance programs.

- [FINRA Regulatory Notice 21-36 \(October 8, 2021\)](#): FINRA Encourages Firms to Consider How to Incorporate the Government-wide AML and CFT Priorities into their AML Programs

Advisory on FATF-Identified Jurisdictions

FinCEN issued an advisory to inform financial institutions of updates to the FATF list of jurisdictions with strategic anti-money laundering and combating the financing of terrorism (AML/CFT) and counter-proliferation financing deficiencies. As part of the FATF's listing and monitoring process to ensure compliance with its international standards, the FATF identifies certain jurisdictions as having strategic deficiencies in their regimes. Financial institutions should consider the FATF's statements when reviewing their obligations and

risk-based policies, procedures, and practices with respect to the jurisdictions noted below.

- [FinCEN Advisory, FIN-2021-A003 \(March 11, 2021\)](#)

Fraud Prevention

Low-priced securities tend to be volatile and trade in low volumes. It may be difficult to find accurate information about them. There is a long history of bad actors exploiting these features to engage in fraudulent manipulations of low-priced securities. Frequently, these actors take advantage of trends and major events to perpetrate fraud. FINRA has observed potential misrepresentations about low-priced securities issuers' involvement with COVID-19 related products or services, such as vaccines, test kits, personal protective equipment and hand sanitizers. These misrepresentations appear to have been part of potential pump-and-dump or market manipulation schemes that target unsuspecting investors. These COVID-19-related manipulations are the most recent manifestation of this type of fraud.

- [FINRA Regulatory Notice 21-03 \(February 10, 2021\)](#): FINRA Urges Firms to Review Their Policies and Procedures Relating to Red Flags of Potential Securities Fraud Involving Low-Priced Securities

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Cybersecurity and Technology Governance

FINRA Alerts Firms to “Log4Shell” Vulnerability in Apache Log4j Software

FINRA is alerting firms to a recently identified vulnerability in Apache Log4J software, which is an open-source, Java-based logging utility widely used by enterprise applications and cloud services. The “Log4Shell” vulnerability presents risk for member firms because they may be using this software in internal applications, or the software may be embedded in third-party software packages. In addition, many applications written in Java are potentially vulnerable.

- [FINRA Regulatory Notice 21-42 \(December 14, 2021\)](#): FINRA Alerts Firms to “Log4Shell” Vulnerability in Apache Log4j Software

Alert: Phishing Campaigns Using Imposter FINRA Domain Names

FINRA warns member firms of ongoing phishing campaigns that involve fraudulent emails purporting to be from FINRA and using one of several imposter FINRA domain names, including:

- “@finrar-reporting.org”
- “@Finpro-finrar.org”
- “@gateway2-finra.org”
- “@westour.org”
- “@gateway-finra.org”
- “supports@finra-online.com”

FINRA recommends that anyone who clicked on any link or image in emails from these domain names immediately notify the appropriate individuals in their firm of the incident.

- [FINRA Regulatory Notice 21-30 \(August 13, 2021\)](#): FINRA Alerts Firms to a Phishing Email Campaign Using Multiple Imposter FINRA Domain Names
- [FINRA Regulatory Notice 21-22 \(June 23, 2021\)](#): FINRA Alerts Firms to Phishing Email From “FINRA Support” From the Domain Name “westour.org”
- [FINRA Regulatory Notice 21-20 \(June 7, 2021\)](#): FINRA Alerts Firms to Phishing Email Using “gateway-finra.org” Domain Name
- [FINRA Regulatory Notice 21-08 \(March 4, 2021\)](#): FINRA Alerts Firms to Phishing Email Using “finra-online.com” Domain Name

Protecting Customer Accounts

FINRA has received an increasing number of reports regarding customer account takeover (ATO) incidents, which involve bad actors using compromised customer information, such as login credentials (i.e., username and password), to gain unauthorized entry to customers’ online brokerage accounts. To help firms prevent, detect, and respond to such attacks, FINRA recently organized roundtable discussions with representatives from 20 firms of various sizes and business models to discuss their approaches to mitigating the risks from ATO attacks

- [FINRA Regulatory Notice 21-18 \(May 12, 2021\)](#): FINRA Shares Practices Firms Use to Protect Customers from Online Account Takeover Attempts

Heightened Threat of Fraud

FINRA warns member firms that it has recently observed a sharp increase in new customers opening online brokerage accounts and engaging in Automated Clearing House (ACH) “instant funds” abuse to effect securities trading. FINRA has previously warned firms about trends in losses from schemes involving electronic funds transfers, such as those involving outbound wire transfers and ATM withdrawals.

- [FINRA Regulatory Notice 21-14 \(March 25, 2021\)](#): FINRA Alerts Firms to Recent Increase in ACH “Instant Funds” Abuse

FINRA Cybersecurity Topic Page

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

- [FINRA Topic Page: Cybersecurity](#)

SEC Investor Bulletin

The SEC’s Office of Investor Education and Advocacy issued this Investor Bulletin to help investors protect their online investment accounts from fraud. As with all web-based accounts, investors should take precautions to help ensure that their online investment accounts remain secure. These online security tips can help.

- [SEC Investor Bulletin](#): Protecting Your Online Investment Accounts from Fraud (July 1, 2021)

Vendor Management and Outsourcing

FINRA is publishing this Notice to remind member firms of their obligation to establish and maintain a supervisory system, including written supervisory procedures, for any activities or functions performed by third-party vendors that are reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA rules. This Notice reiterates applicable regulatory obligations, summarizes recent trends in examination findings, observations and disciplinary actions; and provides questions member firms may consider when evaluating their systems, procedures and controls relating to Vendor management.

- [FINRA Regulatory Notice 21-29 \(August 13, 2021\)](#): FINRA Reminds Firms of their Supervisory Obligations Related to Outsourcing to Third-Party Vendors

Digital Assets

For the past several years, FINRA has encouraged firms to keep their risk monitoring analyst informed if the firm, or its associated persons or affiliates, engaged, or intended to engage, in activities related to digital assets, including digital assets that are non-securities. FINRA appreciates members’ cooperation with this request and is encouraging firms to continue to keep their risk monitoring analyst abreast of their activities related to digital assets on an ongoing basis.

- [FINRA Regulatory Notice 21-25 \(July 8, 2021\)](#): FINRA Continues to Encourage Firms to Notify FINRA if They Engage in Activities Related to Digital Assets

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Senior Investors

Senior Investors

FINRA has adopted amendments to Rule 2165 (Financial Exploitation of Specified Adults) to permit member firms to: (1) place a hold on a securities transaction (in addition to the already-permitted hold on a disbursement of funds or securities) where there is a reasonable belief of financial exploitation; and (2) extend

a temporary hold on a disbursement or transaction for an additional 30 business days, beyond the current maximum of 25 business days (for a total of 55 business days), if the member firm has reported the matter to a state regulator or agency, or a court of competent jurisdiction. The amendments to Rule 2165 became effective on March 17, 2022.

- [FINRA Regulatory Notice 22-05 \(February 15, 2022\)](#): FINRA Adopts Amendments to FINRA Rule 2165

NASAA Model Act to Protect Seniors and Vulnerable Adults

In a significant step toward providing much needed protection for seniors and vulnerable adults, NASAA announced that its membership has voted to adopt a model act designed to protect vulnerable adults from financial exploitation. The model, entitled “An Act to Protect Vulnerable Adults from Financial Exploitation” provides new tools to help detect and prevent financial exploitation of vulnerable adults.

- [NASAA Model Statute to Protect Vulnerable Adults](#)
- www.serveourseniors.org

FINRA Securities Helpline for Seniors: In 2015, FINRA launched the toll-free FINRA Securities Helpline for Seniors® to provide older investors with a supportive place to get assistance from knowledgeable FINRA staff related to concerns they have with their brokerage accounts and investments. Senior investors can call FINRA’s new toll-free FINRA Securities Helpline for Seniors to get neutral, knowledgeable assistance with:

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

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

Monday – Friday - 9 A.M. To 5 P.M. EST

FINRA Topic Page: [Senior Investors](#)

Sales

Reg BI

Regulation Best Interest: The Broker-Dealer Standard of Conduct

This Notice reminds members of the SEC's adoption of a best interest standard of conduct for broker-dealers and a relationship summary (Form CRS) delivery obligation and provides an SEC email address where members may submit questions about the new requirements. As more fully described in the Notice, the SEC encourages firms to actively engage with SEC staff as early as possible as questions arise when planning for implementation. Firms may send their questions by email to IABDQuestions@sec.gov. FINRA also will assist members in their implementation of the best interest standard in various ways.

- [FINRA Regulatory Notice 19-26 \(August 7, 2019\)](#): SEC Adopts Best Interest Standard of Conduct

Reg BI establishes a standard of conduct for broker-dealers and natural persons who are associated persons of a broker-dealer when they make a recommendation to a retail customer of any securities transaction or investment strategy involving securities ("Regulation Best Interest"). Regulation Best Interest enhances the broker-dealer standard of conduct beyond existing suitability obligations, and aligns the standard of conduct with retail customers' reasonable expectations by requiring broker-dealers, among other things, to: (1) act in the best interest of the retail customer at the time the recommendation is made, without placing the financial or other interest of the broker-dealer ahead of the interests of the retail customer; and (2) address conflicts of interest by establishing, maintaining, and enforcing policies and procedures reasonably designed to identify and fully and fairly disclose material facts about conflicts of interest, and in instances where the SEC has determined that disclosure is insufficient to reasonably address the conflict, to mitigate or, in certain instances, eliminate the conflict. The standard of conduct established by Regulation Best Interest cannot be satisfied through disclosure alone. The standard of conduct draws from key principles underlying fiduciary obligations, including those that apply to investment advisers under the Investment Advisers Act of 1940.

Importantly, regardless of whether a retail investor chooses a broker-dealer or an investment adviser (or both), the retail investor will be entitled to a recommendation (from a broker-dealer) or advice (from an investment adviser) that is in the best interest of the retail investor and that does not place the interests of the firm or the financial professional ahead of the interests of the retail investor.

The compliance date for this rule was June 30, 2020.

- [Securities Exchange Act Release No. 86031 \(June 5, 2019\)](#), [84 FR 33318 \(July 12, 2019\)](#): Regulation Best Interest: The Broker-Dealer Standard of Conduct (Final Rule)

FINRA Topic Page: [SEC Regulation Best Interest \(Reg BI\)](#)

Reg BI-Related Changes to FINRA Rules

FINRA has amended its suitability rule, Capital Acquisition Broker (CAB) suitability rule and rules governing non-cash compensation to provide clarity on which standard applies and to address potential inconsistencies with the SEC's Regulation Best Interest (Reg BI). These changes have been approved by the SEC and became effective on June 30, 2020, the compliance date of Reg BI.

- [FINRA Regulatory Notice 20-18 \(June 19, 2020\)](#): FINRA Amends its Suitability, Non-Cash Compensation and Capital Acquisition Broker (CAB) Rules in Response to Regulation Best Interest

Arbitration

Predispute Arbitration Agreements in Customer Agreements

FINRA reminds member firms about requirements when using predispute arbitration agreements for customer accounts. Where member firms use mandatory arbitration clauses in their customer agreements, FINRA rules establish minimum disclosure requirements regarding the use of such clauses and prohibit predispute arbitration agreements from including conditions that, among other things, limit or contradict FINRA rules. In addition, FINRA rules do not allow class action claims in FINRA arbitration. Accordingly, FINRA rules prohibit member firms from incorporating provisions that would prevent customers from bringing or participating in judicial class actions by adding waiver language into customer agreements (class action waivers) and prohibit member firms from enforcing arbitration agreements against members of a certified or putative class action. FINRA urges member firms to take prompt steps to ensure their customer agreements fully comply with FINRA rules. Member firms that fail to comply with FINRA rules related to customer agreements may be subject to disciplinary action.

- [FINRA Regulatory Notice 21-16 \(April 21, 2021\)](#): FINRA Reminds Members About Requirements When Using Predispute Arbitration Agreements for Customer Accounts

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Sales Practice

FINRA Adopts Rule to Limit a Registered Person Being Named a Customer's Beneficiary or Holding a Position of Trust for a Customer

FINRA adopted a new rule to limit any associated person of a member firm who is registered with FINRA from being named a beneficiary, executor or trustee, or to have a power of attorney or similar position of trust for or on behalf of a customer. FINRA Rule 3241 (Registered Person Being Named a Customer's Beneficiary or Holding a Position of Trust for a Customer) protects investors by requiring all member firms to affirmatively address registered persons being named beneficiaries or holding positions of trusts for customers. The rule requires the member firm with which the registered person is associated, upon receiving required written notice from the registered person, to review and approve or disapprove the registered person assuming such status or acting in such capacity. The rule does not apply where the customer is a member of the registered person's "immediate family." Rule 3241 became effective on February 15, 2021.

- [FINRA Regulatory Notice 20-38 \(October 29, 2020\)](#): Registered Person Being Named a Customer's Beneficiary or Holding a Position of Trust for a Customer

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

(New) Alternative Mutual Funds

Recently, FINRA took enforcement action against several firms for failing to establish or maintain a reasonably designed supervisory system for recommendations of alternative mutual funds, also sometimes referred to as “alt funds” or “liquid alts” (“Alt Funds”). FINRA is continuing to note such deficiencies in its examinations and communications reviews of such products.

- [FINRA Regulatory Notice 22-11 \(April 19, 2022\)](#): FINRA Reminds Firms of Their Sales Practice Obligations for Alternative Mutual Funds

Rules to Address Firms with a History of Misconduct

FINRA has adopted new rules to address firms with a significant history of misconduct. 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. 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. The new rules and rule amendments became effective on January 1, 2022. The first “Evaluation Date” for Rule 4111 is June 1, 2022.

- [FINRA Regulatory Notice 21-34 \(September 28, 2021\)](#), [Rule 4111](#): FINRA Adopts Rules to Address Firms with a Significant History of Misconduct

Rules to Address Brokers with a History of Misconduct

FINRA has adopted new rules to address brokers with a significant history of misconduct and the broker-dealers that employ them.

- [FINRA Regulatory Notice 21-09 \(March 10, 2021\)](#): FINRA Adopts Rules to Address Brokers with a Significant History of Misconduct

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Private Placements

FINRA Amends Rules 5122 and 5123 Filing Requirements

FINRA has adopted changes to FINRA Rules 5122 (Private Placements of Securities Issued by Members) and 5123 (Private Placements of Securities) to require members to file retail communications that promote or recommend private placement offerings that are subject to those rules’ filing requirements. The new filing requirements became effective on October 1, 2021.

- [FINRA Regulatory Notice 21-26 \(July 15, 2021\)](#): Private Placement Retail Communications

FINRA Updates Private Placement Filer Form

FINRA has updated the form that members 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) (Filer Form). The updated Filer Form will be accessible in the FINRA Gateway beginning May 22, 2021, and includes new and updated questions that will facilitate review of the filed material. Beginning on May 22, 2021, members are required to complete the updated Filer Form for all new filings, as well as for new amendments to filings.

- [FINRA Regulatory Notice 21-10 \(March 11, 2021\)](#): Private Placement Filer Form

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Products

(New) Complex Products and Options

The availability of complex products and options can potentially expand the investment opportunities for retail investors and, if properly understood, offer favorable investment outcomes (e.g., enhancing returns, limiting losses or improving diversification). However, important regulatory concerns arise when investors trade complex products without understanding their unique characteristics and risks. Like complex products, trading in options may pose risks if investors do not have the financial experience to understand options and options trading strategies. Therefore, we have taken steps to address complex products and options over the years, including publishing guidance regarding sales practice concerns raised by complex products and options; issuing investor-focused alerts to highlight the risks of these products; adopting rules with specific requirements for particular complex products and for options; and examining members for compliance with SEC and FINRA rules. The number of accounts trading in complex products and options has increased significantly in recent years. As a result, we are again reminding members of their current regulatory obligations, including, as discussed below, the application of Regulation Best Interest (Reg BI) when broker-dealers and their associated persons make securities recommendations, and recommendations of investment strategies involving securities, to retail customers. In addition, we are soliciting comment on: (1) effective practices that members have developed for complex products and options, particularly when retail investors are involved; and (2) whether the current regulatory framework, which was adopted at a time when the majority of individuals accessed financial products through financial professionals, rather than through self-directed platforms, is appropriately tailored to address current concerns raised by complex products and options.

- [FINRA Regulatory Notice 22-08 \(March 8, 2022\)](#): Complex Products and Options

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Investment Company Products

Many investment companies provide sales charge discounts and waivers on their products for customers in certain circumstances described in their product offering documents (e.g., prospectuses or statements of additional information). These include volume-based discounts, such as breakpoints and waivers, on mutual fund exchanges. Failure to apply these discounts or waivers correctly may adversely affect customers' rates of return on their investment and contravenes firms' obligations under FINRA rules.

FINRA is issuing this Notice to:

- remind firms of their obligation to understand and, as appropriate, apply sales charge discounts and waivers for eligible customers;
 - provide an overview of common sales charge discounts and waivers;
 - share frequently observed findings in examinations and enforcement matters; and
 - note considerations firms should review to improve their compliance programs.
- [FINRA Regulatory Notice 21-07 \(March 4, 2021\)](#): FINRA Provides Guidance on Common Sales Charge Discounts and Waivers for Investment Company Products

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Options

(New) Options Customer Account Approval and Supervision

Cboe reminds Trading Permit Holders and Members (collectively "Members") of the approval requirements for customers seeking to trade options in their account. Members are prohibited from accepting orders from a customer to purchase or write an option contract unless the customer's account has been approved for options transactions in accordance with the provisions set forth in the Exchanges' rules governing the opening of accounts.

- [CBOE Regulatory Circular 22-007 \(March 15, 2022\): Option Customer Account Approval and Supervision](#)

Cboe Receives Regulatory Approval to Launch Periodic Auctions for U.S. Equities Trading

On March 29, 2021, Cboe announced it received SEC approval to introduce periodic auctions on Cboe BYX Equities Exchange. Cboe expects to launch U.S. periodic auctions in the third quarter of 2021. Cboe's U.S. periodic auctions are designed to allow market participants to access frequent, price-forming auctions throughout the course of the trading day, thereby helping them find liquidity in a short timeframe with low market impact, while prioritizing price and size. Periodic auctions of one-hundred milliseconds will

be initiated when there are matching auctionable buy and sell orders available to trade in the auction. The message identifying when an auction is available will be randomized, helping to mitigate any potential adverse selection. Periodic auctions will not interrupt trading in the continuous market and will execute at a price level that maximizes volume executed in the auction, including any orders posted on the BYX order book.

- [Cboe Global Markets News and Events \(March 29, 2021\)](#)

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Municipal Securities

SEC Approves Amendments to Rules G-10 and G-48 Clarifying Notification Requirements for Dealers

On October 5, 2021, the MSRB received approval from SEC for a rule change consisting of amendments to Rule G-10, on investor and municipal advisory client education and protection, clarifying and aligning the requirements for brokers, dealers and municipal securities dealers to provide required notifications under the rule directly to those customers for whom a purchase or sale of a municipal security was effected in the past year and to each customer who holds a municipal securities position. The SEC also approved an accompanying amendment to Rule G-48, on transactions with sophisticated municipal market professionals (SMMPs), allowing dealers to conditionally excluded SMMPs from the requirements under Rule G-10(a). The rules became effective on October 12, 2021.

- [MSRB Regulatory Notice 2021-13 \(October 6, 2021\)](#): SEC Approves Amendments to Rules G-10 and G-48 Clarifying Notification Requirements for Dealers

Market Integrity

Consolidated Audit Trail (CAT)

CAT Compliance Rules

Rule 613 under the Securities Exchange Act of 1934 requires FINRA and the national securities exchanges to jointly submit a National Market System (NMS) plan detailing how they would develop, implement, and maintain a consolidated audit trail that collects and accurately identifies every order, cancellation, modification and trade execution for all exchange-listed equities and options across all U.S. markets. FINRA is working with the exchanges to develop an NMS plan that meets the requirements of Rule 613.

- [FINRA Rule 6800 Series](#): Consolidated Audit Trail Compliance Rule
- Visit [The Consolidated Audit Trail website \(https://www.catnmsplan.com/\)](https://www.catnmsplan.com/) for more information

Order Audit Trail System

Effective September 1, 2021, FINRA is amending its rulebook to eliminate the Order Audit Trail System (OATS) rules in the FINRA Rule 7400 Series and FINRA Rule 4554 (Alternative Trading Systems — Recording and Reporting Requirements of Order and Execution Information for NMS Stocks) (collectively referred to as the “OATS Rules”). FINRA has determined that the accuracy and reliability of the Consolidated Audit Trail (CAT) meet the standards approved by the SEC and has determined to retire OATS as of September 1, 2021.

- [FINRA Regulatory Notice 21-21 \(June 17, 2021\)](#): FINRA Eliminates the Order Audit Trail System (OATS) Rules

Equity Trade Reporting

FINRA has amended its rules to require firms to report time fields in trade reports submitted to a FINRA equity trade reporting facility with the same timestamp granularity used when reporting to the Consolidated Audit Trail (CAT).

Effective Dates: November 15, 2021 (Alternative Display Facility & Trade Reporting Facilities); November 14, 2022 (OTC Reporting Facility)

- [FINRA Regulatory Notice 20-41 \(December 2, 2020\)](#): FINRA Amends Its Equity Trade Reporting Rules Relating to Timestamp Granularity

Sanction Guidelines

The National Adjudicatory Council (NAC) has revised FINRA's Sanction Guidelines to incorporate a new guideline for violations of the Consolidated Audit Trail System (CAT) industry member compliance rules. The

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

- [FINRA Regulatory Notice 21-37 \(October 20, 2021\)](#): The National Adjudicatory Council (NAC) Revises the Sanction Guidelines

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Prohibited Practices

Insider Trading

FINRA Rule 3110 (Supervision) includes a provision to help firms comply with their obligation under Section 15(g) of the Securities Exchange Act of 1934 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, and firms are encouraged to tailor their policies and procedures to their specific business models.

- [SEC Fast Answers: Insider Trading](#)
- [Insider Trading “Red Flags” and Filing a Tip with FINRA](#)

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Best Execution

Market Order Timeliness

Considering the increasingly automated markets for NMS stocks, FINRA is issuing this Notice to remind member firms of their obligation to execute marketable customer orders fully and promptly. FINRA also reminds firms of their obligation to ensure that their supervisory systems are reasonably designed to achieve compliance with this obligation.

- [FINRA Regulatory Notice 22-04 \(January 21, 2022\)](#): FINRA Reminds Member Firms of Obligation to Execute Marketable Customer Orders Fully and Promptly

Best Execution and Payment for Order Flow

FINRA issued this Notice to remind member firms of longstanding SEC and FINRA rules and guidance concerning best execution and payment for order flow, which the SEC has defined very broadly to refer to a wide range of practices including monetary payments and discounts, rebates, or other fee reductions or

credits. Under these rules and guidance, member firms may not let payment for order flow interfere with their duty of best execution

- [FINRA Regulatory Notice 21-23 \(June 23, 2021\)](#): FINRA Reminds Firms of Requirements Concerning Best Execution and Payment for Order Flow

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Quotations and Reporting

Compliance with SEC Rule 15c2-11

FINRA adopted amendments to Rule 6432 (Compliance with the Information Requirements of SEA Rule 15c2-11) in light of the SEC amendments to SEC Rule 15c2-11. As amended, Rule 6432 will require a qualified inter-dealer quotation system to submit a modified Form 211 filing to FINRA in connection with each initial information review, and a daily security file to FINRA containing summary information for all securities quoted on its system on each day that it makes a publicly available determination permitted under SEC Rule 15c2-11, among other amendments. The amendments to Rule 6432 became effective on September 28, 2021, in line with the compliance date for the amendments to SEC Rule 15c2-11.

- [FINRA Regulatory Notice 21-33 \(September 28, 2021\)](#): FINRA Adopts Amendments to Rule 6432 Regarding Compliance with the Information Requirements of SEC Rule 15c2-11

Regulation of Inter-dealer Quotation Systems

FINRA has adopted new Rule 6439 (Requirements for Member Inter-Dealer Quotation Systems), which implements additional requirements for firms that operate systems that regularly disseminate the quotations of identified broker-dealers in OTC Equity Securities (each an “inter-dealer quotation system” or “IDQS”). Rule 6439 became effective on October 1, 2021, except for paragraph (d)(1)(B), which relates to the collection of order-level information. The effective date for this paragraph will be announced at a later date to better coordinate, and avoid regulatory duplication, with reporting obligations to the Consolidated Audit Trail (CAT) under Rule 6830 (Industry Member Data Reporting).

FINRA also is deleting the Rule 6500 Series and other rules related to the OTC Bulletin Board (OTCBB) – a FINRA-operated inter-dealer quotation system – and ceasing its operation. The permanent closure of the OTCBB will not occur prior to October 1, 2021. FINRA will announce the effective date of the deletion of the OTCBB-related rules and its closure in a separate communication.

- [FINRA Regulatory Notice 21-28 \(August 6, 2021\)](#): FINRA Adopts Rule 6439 Governing the Operation of Inter-Dealer Quotation Systems and Announces Closure of the OTC Bulletin Board

Regulation of Inter-dealer Quotation Systems

On November 8, 2021, FINRA ceased operation of the OTC Bulletin Board (OTCBB)—a FINRA-operated inter-dealer quotation system—and deleted the OTCBB-related rules from the FINRA rulebook.

- [FINRA Regulatory Notice 21-38 \(October 25, 2021\)](#): FINRA Announces Closure of the OTC Bulletin Board

SEC Approves Registration of First Security-Based Swap Data Repository

November 8, 2021 was the first compliance date for Regulation SBSR, which governs regulatory reporting and public dissemination of security-based swap transactions. Regulation SBSR is a key component of the security-based swap regulatory regime established by Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Regulation SBSR provides for the reporting of security-based swap information to registered SDRs and for public dissemination of transaction, volume, and pricing information.

- [SEC Release No. 34-91798 \(May 7, 2021\)](#): Security-Based Swap Data Repositories; DTCC Data Repository (U.S.), LLC; Order Approving Application for Registration as a Security-Based Swap Data Repository

Financial Management

General Standards

SEC Financial Responsibility Rules

FINRA is making available updates to interpretations in the Interpretations of Financial and Operational Rules that have been communicated to FINRA by the staff of the SEC's Division of Trading and Markets. The updated interpretations are with respect to Securities Exchange Act (SEA) Rules 15c3-1 and 15c3-3.

- [FINRA Regulatory Notice 21-27 \(July 22, 2021\)](#): FINRA Announces Update of the Interpretations of Financial and Operational Rules

Qualifications of Accountants

The SEC adopted amendments to update certain auditor independence requirements. These amendments are intended to focus the independence analysis more effectively on those relationships or services that are more likely to pose threats to an auditor's objectivity and impartiality. The amendments became effective on June 9, 2021.

- [SEC Release No. 33-10876 \(October 16, 2020\)](#), [85 FR 80508 \(December 11, 2020\)](#): Qualifications of Accountants (Final Rule)

Fund of Funds Arrangements

The SEC adopted a new rule under the Investment Company Act of 1940 to streamline and enhance the regulatory framework applicable to funds that invest in other funds ("fund of funds" arrangements). In connection with the new rule, the Commission rescinded rule 12d1-2 under the Act and certain exemptive relief that had been granted from sections 12(d)(1)(A), (B), (C), and (G) of the Act permitting certain fund of funds arrangements. Finally, the Commission adopted related amendments to rule 12d1-1 under the Act and to Form N-CEN. The rule became effective on January 19, 2021.

- [SEC Release No. 33-10871 \(October 7, 2020\)](#), [85 FR 73924 \(November 19, 2020\)](#): Fund of Funds Arrangements (Final Rule)
- [SEC Press Release 2020-247 \(October 7, 2020\)](#): SEC Updates Framework for Fund of Funds Arrangements

SEC Adopts Clearing Agency Rule to Limit Duplicative Regulation

The SEC adopted a rule pursuant to Section 36 of the Securities Exchange Act of 1934 ("Exchange Act") to exempt from the definition of "clearing agency" in Section 3(a)(23) of the Exchange Act certain activities of

a registered security-based swap dealer, a registered security-based swap execution facility, and a person engaging in dealing activity in security-based swaps that is eligible for an exception from registration as a security-based swap dealer because the quantity of dealing activity is de minimis.

- [SEC Release No. 34-90667 \(December 16, 2020\)](#), [86 FR 7637 \(February 1, 2021\)](#): Exemption from the Definition of “Clearing Agency” for Certain Activities of Security-Based Swap Dealers and Security Based Swap Execution Facilities (Final Rule)

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Liquidity Management

Supplemental Liquidity Schedule

FINRA has established a new Supplemental Liquidity Schedule (SLS). The new SLS, which members subject to the requirement will need to file as a supplement to the FOCUS Report, is designed to improve FINRA’s ability to monitor for events that signal an adverse change in the liquidity risk of the members with the largest customer and counterparty exposures. FINRA is issuing this Notice to provide further information on the new requirement, which became effective on March 1, 2022. For members subject to the requirement, the first SLS were to be completed as of the end of March 2022 and due by May 4, 2022

- [FINRA Regulatory Notice 21-31 \(September 3, 2021\)](#): FINRA Establishes New Supplemental Liquidity Schedule (SLS)

Customer Order Handling, Margin and Liquidity

FINRA issued this Notice to remind member firms of their obligations to maintain appropriate margin requirements and effectively manage their liquidity, especially during periods of extreme market conditions.

- [FINRA Regulatory Notice 21-12 \(March 18, 2021\)](#): FINRA Reminds Member Firms of Their Obligations Regarding Customer Order Handling, Margin Requirements and Effective Liquidity Management Practices During Extreme Market Conditions

Security-Based Swaps

FINRA has adopted amendments to its rules to clarify the application of FINRA rules to security-based swaps (SBS):

- FINRA has adopted a new Rule 0180 (Application of Rules to Security-Based Swaps), which, along with conforming amendments to Rule 9610 (Procedures for Exemptions—Application), will become effective February 6, 2022. The new rule replaces the expiring temporary Rule 0180 and generally applies FINRA rules to members’ activities and positions with respect to SBS, with limited exceptions.

- FINRA has amended its financial responsibility and operational rules, including Rule 4120 (Regulatory Notification and Business Curtailment), to conform to the Securities and Exchange Commission's (SEC or Commission) SBS-related capital, margin and segregation requirements. These amendments will also become effective February 6, 2022.
- FINRA has adopted a new SBS-specific margin rule, Rule 4240 (Security-Based Swap Margin Requirements), which replaces the expiring interim pilot program establishing margin requirements for credit default swaps (CDS). The new margin rule, along with related amendments to Rules 4210 (Margin Requirements) and 4220 (Daily Record of Required Margin), will become effective April 6, 2022.

Effective Dates: February 6, 2022 (Rules 0180, 4120 and 9610) and April 6, 2022 (Rules 4210, 4220 and 4240)

- [FINRA Regulatory Notice 22-03 \(January 20, 2022\)](#): FINRA Adopts Amendments to Clarify the Application of FINRA Rules to Security-Based Swaps

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Credit Risk Management

Margin Interpretation Updates

FINRA Rule 4210 (Margin Requirements) specifies the margin requirements applicable to securities held in margin accounts, including both strategy-based margin accounts and portfolio margin accounts. FINRA maintains interpretations regarding FINRA Rule 4210, available on the [Interpretations of FINRA's Margin Rule webpage](#), in a portable digital format (PDF) document where the interpretations immediately follow the section of the rule to which they relate. This Notice clarifies and updates the interpretations regarding minimum equity requirements.

- [FINRA Regulatory Notice 21-24 \(July 6, 2021\)](#): FINRA Announces Updates to the Interpretations of FINRA's Margin Rule Regarding Minimum Equity

Margin Interpretation Updates

FINRA Rule 4210 (Margin Requirements) specifies the margin requirements applicable to securities held in margin accounts, including both strategy-based margin accounts and portfolio margin accounts. FINRA maintains interpretations regarding FINRA Rule 4210, available on the [Interpretations of FINRA's Margin Rule webpage](#), in a portable digital format (PDF) document where the interpretations immediately follow the section of the rule to which they relate. This Notice clarifies and updates the interpretations regarding day trading.

- [FINRA Regulatory Notice 21-13 \(March 24, 2021\)](#): FINRA Announces Updates to the Interpretations of FINRA's Margin Rule for Day Trading

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Additional Resources

- For more information visit the 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 more information on Firm Element please visit the [CE Council Frequently Asked Questions](#) page.