

## **April 2017 Monthly Recap Podcast**

Hello and welcome to FINRA's monthly recap podcast. From Washington, DC, I'm Kenneth Edward Piner.

And I'm Nico Waters. Today is May 1st, 2017.

**KEP:** First up, we have a full slate of notices. The Securities and Exchange Commission approved a new FINRA rule, and amendments to an existing rule aimed at protecting seniors from financial exploitation. The new rule is called "Financial Exploitation of Specified Adults," and it allows firms to place temporary holds on fund or security disbursements from the accounts of specified customers where there is reason to believe they are being exploited. The SEC also approved amendments to FINRA's Customer Account Information rule. It requires firms to make reasonable efforts to get the name and contact information for a trusted person for the specified customer's accounts. Both rules go into effect on February 5, 2018, and you can read more about the new rule and the other amendments in Regulatory Notice 17-11.

**NW:** FINRA is updating its regulatory extension system, called REX, to allow firms to file extension of time requests under a shortened settlement cycle. The SEC amended Rule 15c6-1a under the Securities Exchange Act to shorten the standard settlement cycle from most broker-dealer transactions to T plus 2, which is 2 business days after the trade date. As detailed in Regulatory Notice 17-12, firms can use the batch file process and complete the online request form through REX on the firm gateway. The change is effective September 11, 2017.

KEP: FINRA revised its sanction guidelines after review by the National Adjudicatory Council called the NAC. The revisions reflect changes in both the disciplinary process and FINRA rules, as well as sanction levels imposed in FINRA disciplinary proceedings. The revisions under review include things like: requiring that the exercise of undue influence over a customer be considered for all guideline violations; and amendments to 12 sections revising sanctions for more serious FINRA rule violations; and the revisions Harmonized Guidelines with a relevant precedent, prior amendments, and FINRA's rulebook consolidation process. You can read more in Regulatory Notice 17-13. The revised sanction guidelines are effective immediately.

NW: FINRA is requesting comment on three proposals clarifying the requirements for firms engaged in the capital formation process. First, as detailed in Regulatory Notice 17-14, FINRA is seeking comment on all existing rules, operations, and administrative processes that address firms' capital raising activity including recent additions about capital acquisition brokers and funding portals. The notice is part of the new FINRA360 initiative, a comprehensive review of FINRA's operations and programs.

KEP: Second, as covered in Regulatory Notice 17-15, FINRA seeks comment on proposed amendments to modernize, simplify, and clarify FINRA Rule 5110 on underwriting terms and arrangements about public offerings. The rule prohibits unfair underwriting arrangements.

NW: A third proposal, as noted in Regulatory Notice 17-16, includes amendments to FINRA rules governing equity and debt research analysts and research reports. The rule changes would create a limited safe harbor for certain written analyses that may rise to the level of

a research report. The proposed safe harbor would be subject to conditions including compliance with several provisions of the rules to mitigate conflicts. You can comment on all three notices until May 30, 2017.

KEP: FINRA also updated the form that firms use to file offering documents and information pursuant to FINRA Rules 5122 and 5123 which addressed private placements of securities issued by members as well as by private placements of securities. As detailed in Regulatory Notice 17-17, FINRA requires firms to file the filer form through the firm gateway. The form contains information about the firm selling private placement securities, the issuer, and the offering terms as well as any offering documents. The updated filer form will be available beginning May 22, 2017.

NW: FINRA provided guidance on the applications of its rules governing communications with the public to digital communications as explained in Regulatory Notice 17-18. The new guidance updates previous guidance on social media sites and the use of personal devices for business communications. It also includes a question and answer section detailing nuances of rules governing these new communications channels.

KEP: As a reminder, FINRA also seeking comment on its current engagement programs with focus on FINRA's committees, rulemaking process, and member relations and related programs. In response to feedback, FINRA recently extended the comment period to June 19th. You can read more in a March 21st Special Notice.

NW: FINRA also updated its Transparency Services Participant Agreement. Firms with an obligation to report over-the-counter or secondary-market transactions in eligible equity and fixed-income securities must submit their transaction reports to the appropriate

FINRA facility and they must complete a Participant Application Agreement before being given access to the facility. Facilities include the Trade Reporting Compliance Engine, called TRACE, the OTC Reporting Facility and the Alternative Display Facility. You can read more about the update in the April 3rd Trade Reporting Notice. This and all the other notices covered are available on our website.

KEP: A new “A Few Minutes with FINRA” episode was released about the Office of Fraud Detection and Market Intelligence. It highlights various red flags firms should look out for regarding insider trading, and, as FINRA’s Cam Funkhouser says, industry tips are key.

CF: We get a lot of good tips from people in the industry that alert us to activity in customer accounts that appears to be potentially problematic. Also, on the fraud space, I mean that’s a, you know, it’s a pickup basketball game in some ways, anything could show up; so if somebody shows up with a bunch of OTC stock certificates from some shell company that suddenly becomes the, uh, target of a pump-and-dump type scheme, we’d like to know about that, too.

NW: The first quarter data tables for the TRACE Fact Book are now available. The tables include aggregated information for securitized products as well as corporate and agency debt securities. This includes trades reported, the top 50 issues by trades and by par value, as well as the average daily par value traded and customer-buy vs. customer-sell ratios.

KEP: In March, FINRA President and CEO Robert Cook spoke at Columbia University at a conference addressing the new special study of the securities markets. Cook looked back

on the original special study as a defining event in the history of U.S. securities regulation and detailed its impact on self-regulatory organizations including FINRA. He discussed benefits of self-regulation and issues for consideration as a definitive plan of action for completing the study is formulated. You can read the full text of Cook's speech on our website.

NW: FINRA released the fourth and final episode in a podcast series highlighting the 2017 Exam Priorities Letter. The series covers some of the specific priorities FINRA examiners will be looking for during the year, and as FINRA's Steve Polansky noted, this episode addressed market integrity and market manipulation.

SP: FINRA regularly enhances and expands its surveillance program to deal with new threats and behavioral changes. For example, in 2016 FINRA enhanced its layering pattern to look for even larger groups engaging in manipulation. Other examples include amending order audit-trail system rules to require alternative trading systems to submit broader order book activity and more closely watching trading at the open and close.

KEP: FINRA also recently updated its Frequently Asked Questions about new FINRA Rule 3210 called Accounts at Other Broker-Dealers and Financial Institutions, and FINRA updated its web page on financial technology-related developments in the securities industry also called FinTech.

NW: FINRA Transparency Services posted the latest of its free workshops covering TRACE, reporting of transactions, and U.S. Treasury securities. This one focused on demonstration of forms. FINRA staff reviewed relevant rules and regulations, provided a

demonstration of new forms, and discussed testing and technical information. If you missed it, it's available On Demand on our website.

KEP: And finally, in Resources for Firms, is news that the Regulatory Element CE Program is now available for tablets. You can download a free app called Puffin Web Browser for iPad at the Apple App Store or for Android at Google Play. Once downloaded, you can access the FINRA CE Online System at [CEonline.FINRA.org](http://CEonline.FINRA.org). You can find more information on all these resources on our website.

NW: Moving on to education. FINRA's Annual Conference is coming up soon in Washington, D.C. on May 16-18. The event will cover key issues affecting the Securities Industry with leaders from firms of all sizes as well as top Compliance professionals, Securities attorneys, government officials and Securities regulators. Topics covered include things like due diligence and anti-money laundering, cloud storage and cyber security. There's still time to register for in-person attendance, or, if you can't be there, be sure to sign up for our online video live stream.

KEP: Later in the year is the Institute at Wharton Certified Regulatory and Compliance professional program called CRCP. It is an executive-level experience in the theory and application of securities law and regulation. It includes intensive instruction, discussion, and case studies and two week-long residential courses at the Wharton School on the University of Pennsylvania campus in Philadelphia. The first week is July 16-21. This foundation course gives a broad understanding of financial regulations. The second week, called the Capstone Course, is November 12-17. It explores advanced-level regulatory and compliance topics that build on lessons from the foundation course.

NW: FINRA will host a half-day's blockchain symposium in New York City on July 13. The event will convene regulators and industry leaders to discuss Distributed Ledger technology, better known as Block Chain, and related opportunities and challenges.

KEP: Registration is also open for this year's Fixed Income Conference coming to Dallas, Texas on September 14. Attendees will hear from industry leaders about the impact of upcoming and recent rule changes in the fixed income markets and how regulators and firms are responding to those changes. Discounted rates go to the first 50 people who register by July 1.

NW: FINRA also released a new E-Learning course called "Insider Trading: Understanding Your Responsibilities." It highlights specific rules and regulations that prohibit insider trading and provides examples of material non-public information. Participants work through scenarios that help them identify possible or actual insider trading and what reporting steps to take. Users have the option to take this course on their smart phone or tablet. You can find this and more than 100 E-Learning courses at [FINRA.org/E-Learning](http://FINRA.org/E-Learning), and you can learn more about all these and other education opportunities on our website.

KEP: This month, all the FINRA news came in the form of Notices and Requests for Comment – we have already covered, so we'll skip straight to Investor News.

NW: The FINRA Investor Education Foundation and the First Nations Development Institute published the nation's most comprehensive analysis of the financial capability of American Indian and Alaska natives. The report titled "Race and Financial Capability in America – Understanding the Native American Experience" surveyed almost 600 Native

Americans and found that they faced difficult financial circumstances and high financial fragility, more so than even other minority populations. In particular, Native Americans fared the worst among minorities in trying to make ends meet. Sixty-three percent of those surveyed indicated that it was difficult or very difficult to do so, compared to 60% of African Americans and 54% of Hispanics.

KEP: The FINRA Securities Helpline for Seniors marked its second anniversary by announcing that \$4.3 million in voluntary reimbursements had been returned to callers. To date, the Help Line has fielded more than 9,200 calls from every U.S. state and from individuals ranging in age from 17 to 102 years old. Also, FINRA staff have referred nearly 650 matters to state, federal and foreign regulators and made more than 130 referrals to Adult Protective Services.

NW: FINRA released an Investor Alert titled “Treasury Securities – Three Ways to Lend to Uncle Sam.” The Alert explored the details of how the U.S. government borrows money through debt securities known collectively as Treasury Securities or, simply, Treasuries, and noted that there are 3 major classes of marketable Treasuries based mostly on the length of time to maturity – bills, notes and bonds.

KEP: A second April Investor Alert provided a Recovery Checklist for victims of investment fraud. In observance of National Crime Victims’ Rights week, a recent study by the FINRA Foundation found that nearly two-thirds of fraud victims experienced at least one severe emotional consequence including stress, anxiety, insomnia and depression. The Alert reminded investors not to lose heart and that there is some measure of recourse available if they have been victim of fraud.

NW: FINRA highlighted for investors its Fund Analyzer with information on over 30,000 mutual funds, Exchange Traded funds, and Exchange Traded Notes. The Fund Analyzer uses a rigorous calculation methodology to estimate the value of the funds and impact of fees and expenses on your investment.

KEP: And with that, we wrap up the April 2017 FINRA Monthly Recap. We hope you have enjoyed it and found it informative. If so, please share it with your colleagues.

NW: Until next time, I'm Nico Waters.

KEP: And I'm Kenneth Edward Piner.

NW: For all of us at FINRA, thanks for listening.