

FINRA September 2017 Monthly Recap Podcast

KEP Hello and welcome. From Washington, D.C., I'm Kenneth Edward Piner with FINRA's September Recap Podcast for 2017.

ML And I'm Mia Lavorata. Today is October 2, and let's turn first to Notices.

KEP In August 2016, the Securities and Exchange Commission approved a rule change to FINRA Rule 4210 on Covered Agency Transactions. As noted in Regulatory Notice 17-28, FINRA made available a set of responses to Frequently Asked Questions and Guidance regarding Covered Agency Transactions. There's also a set of Frequently Asked Questions regarding corresponding SEA Rules 15c3-1 and 15c3-3 provided by the staff of the SEC's Division of Trading and Markets. The effective date for the rule changes was also moved back to June 25, 2018.

ML FINRA issued two election notices during the month. In one election, the Small Firm Advisory Board will fill two full-term seats in the South and Midwest regions, and a part-term seat in the North Region. In a second election, FINRA will fill vacancies on FINRA District Committees. Eligible candidates who want to appear on either ballot must submit a candidate nomination and profile form to the FINRA Corporate Secretary by Monday, October 9. Ballots for both elections will be mailed on or about Friday, October 20, and voting will end in November.

KEP As a reminder, FINRA adopted a new electronic Form 211 for purposes of compliance with the information requirements of SEA Rule 15c2-11, as covered in FINRA Rule 6432. As detailed in Regulatory Notice 17-26, firms must begin using the electronic

form on October 23, but may voluntarily begin anytime prior to that date. Electronic Form 211 can be accessed on the FINRA Firm Gateway.

ML Next up, we have resources for firms. In May, FINRA initiated a retrospective rule review on rules governing outside business activities and private securities transactions. FINRA is now seeking information from all firms about their experience with the rule sets through a voluntary survey. Firm executive reps will receive a unique URL to the survey in the first week of October.

KEP FINRA launched a new governance webpage as a central point for details on FINRA's governance and corporate structure. It lists things like the members of FINRA's Board of Governors and Board Committees, along with executives, a calendar of upcoming Board meetings, as well as governance documents and Board communications.

ML FINRA published data from the Tick Size Pilot Plan covering Appendix B data for the period from April 2016 through April 2017. From now on, monthly data will be published within 120 calendar days of the last of the month.

KEP You can now register for the Compliance Outreach Program for Municipal Advisors hosted by FINRA, the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The November 8 program is a free forum open to municipal advisory professionals to discuss compliance practices with regulators and promote effective compliance structures. The in-person event will be in the SEC's Atlanta Regional Office and webcast live on the SEC's website.

ML The Foundation also released a new study showing veterans fare slightly better financially than civilians, though both groups still struggle with credit-card debt and underwater mortgages. The study is the nation's first comprehensive comparative analysis of the relative financial health of American veterans. Among the findings, compared to their civilian counterparts, veterans are 22% less likely to be unemployed, and 2% more likely to be covered by health insurance.

KEP On September 7, FINRA President and CEO Robert Cook testified before the U.S. House of Representatives Subcommittee on Capital Markets, Securities and Investment. He spoke about FINRA's operations and regulatory programs, and its mission to protect investors and ensure market integrity, while facilitating vibrant capital markets. Cook affirmed FINRA's role, saying "FINRA plays a critical role in the continued strength of those markets as the first line of oversight for the thousands of broker-dealer firms and individual brokers in the United States."

ML Later in the month, Cook also spoke before the Exchequer Club about equity market surveillance. He noted recent developments made effective market oversight more important than ever, and that FINRA, the SEC and the Exchanges have a key role in oversight, monitoring for misconduct and intervention to protect the orders of millions of Americans.

KEP FINRA's Office of Dispute Resolution is aggressively recruiting arbitrators with diverse backgrounds. This includes outreach to more than 100 minority and women's organizations, attending conferences that attract diverse people, and hosting events with diversity-based organizations. A recent independent survey commissioned by the Office

showed a marked improvement in the group's hiring of both minority and women candidates from 2015 to 2016.

ML In an e-mail, Robert Cook updated firms on the upcoming FINRA Board of Governors Meeting. Of note was progress on the initiative in which FINRA is examining its processes top to bottom to ensure operational efficiency, called FINRA 360. Cook also cited initiatives like those extending the comment period on new rules to 60 days, the launch of an outreach effort to understand FinTech innovations, and a review of FINRA's capital formation rules.

KEP In Education, this Fall, FINRA will host three half-day seminars on anti-money laundering. They will cover topics like Money Laundering Fundamentals and Types, Relevant Rules and Regulations, and How to Spot Suspicious AML Activity. The seminars are designed for new AML compliance professionals, or for veterans who want to reinforce their understanding of regulatory and compliance responsibilities. Seminars will be in Dallas on October 19, Boca Raton on November 7, and New York City on November 13.

ML Beginning November 12, FINRA will host the second so-called Capstone Week of its two-week Institute at Wharton Certified Regulatory and Compliance Professional Program. This CRCP executive level course is held at the Wharton School at the University of Pennsylvania in Philadelphia. If you have completed the Foundation course, be sure to register for the Capstone on our website. Also, five scholarships for small-firm industry professionals to attend covering full tuition, room and board are

available. The application deadline for the scholarships has been extended to Friday, October 13.

KEP Registration is still open for several fall conferences, including the Advertising Regulation Conference in Washington, D.C. in October, the Small Firm Conference in Santa Monica, California in November, then closing out the year on December 6 and 7 is FINRA's South Regions Compliance Seminar in Fort Lauderdale, Florida.

ML In e-learning, FINRA released one new course, which uses scenarios from actual FINRA disciplinary actions to remind supervisors of their compliance and supervision obligations. It includes requirements like promptly amending Forms U-4, reviewing customer accounts and suitability.

KEP Let's move now to FINRA news. FINRA published its quarterly Over-the-Counter Bulletin Board and Over-the-Counter Equities High-price Dissemination List for the second quarter. It updates the list of OTC equity securities eligible for report dissemination of certain trades. As of September 15, for dissemination purposes, OTC equity securities transactions of fewer than 100 shares priced at \$175 or less are no longer considered odd lot transactions. FINRA also now reviews trading activity quarterly to determine whether additional OTC equity securities meet the stated criteria.

ML In disciplinary news, a FINRA hearing panel censured Albany, New York-based broker-dealer C.L. King & Associates and fined the firm \$750,000 for material misrepresentations and omissions to issuers of debt securities on behalf of a hedge fund customer. FINRA found both the firm and its anti-money laundering compliance officer Greg Allen Miller failed to create a reasonable AML program or to respond to red flags

related to the sale of billions of shares of penny stocks, a potentially suspicious activity. The finding states that the hedge fund purchased discounted corporate bonds for terminally ill patients that contained a survivor option, a so-called “death put.” This allowed the hedge fund to redeem the investments for the full principal amount before maturity upon the death of a joint tenant. For his part in the scheme, Miller was also suspended for six months and fined \$20,000.

KEP FINRA fined Morgan Stanley Smith Barney LLC \$3,250,000 and required the firm to return nearly \$10,000,000 to more than 3,000 customers for failing to supervise its representatives of short-term trades of unit investment trusts. These so-called “UITs” offer shares in a securities portfolio that terminates on a specific maturity date, often after 15 or 24 months. FINRA found that during the three-year period, hundreds of Morgan Stanley representatives executed short-term UIT rollovers in thousands of customer accounts, and the firm failed to adequately supervise representatives selling them.

ML In investor news, FINRA released an Investor Alert in a podcast encouraging investors to be wary of stock fraud in the wake of natural disasters like the recent hurricanes Harvey in Texas and Maria in Puerto Rico. You can read the alert or listen to the podcast, where FINRA’s Eric Zahl described the most common types of disaster-related schemes and tactics.

EZ Scams include stocks or crowd-funding opportunities having to do with cleanup, rebuilding and technology breakthroughs that claim to prevent future disasters. While it’s conceivable some claims may be true, many could be bogus. Here are some common tactics used by scammers to try to get you to invest your money.

KEP The FINRA Investor Education Foundation awarded its first-ever Ketchum Prize to the Faculty Director of the Center for Financial Security at the University of Wisconsin-Madison Professor J. Michael Collins. The prize, named for former Chairman of the Foundation Rick Ketchum, recognizes outstanding service and research to advance investor protection and financial capability in the United States. The Center for Financial Security conducts research and provides services to help individuals and families improve their financial outcomes. At the award ceremony, Collins described the Center's concept of financial coaching:

JMC And what makes coaching different is that it says, "What do you want to do? What is it that's important to you?" You give people the ability to prove to themselves that they can set a goal and implement some steps, and then they do it, and then they get a little more confidence and they do it again, and you support them again, and so eventually, they become autonomous.

ML The FINRA Investor Education Foundation issued an Investor Alert on the five do's and don'ts to achieve greater financial security, which is based on the Foundation's National Financial Capability Study of more than 25,000 American adults. It includes tips, like making the most of tax breaks for college and retirement saving, how to avoid debt, and warnings not to chase yield when considering new investments.

KEP And that wraps another FINRA Monthly Recap. Be sure to check our website for details on all these highlighted items. We hope you find the Monthly Recap informative. If so, please share it with your colleagues.

ML Until next month, I'm Mia Lavorata.

KEP And I'm Kenneth Edward Piner.

ML For all of us at FINRA, thanks for listening.