

Membership Application Changes

FINRA Amends Electronic Form NMA and Adopts New Electronic Form CMA Filing Requirements

Implementation Date: July 23, 2012

Executive Summary

FINRA has amended Form NMA and adopted new Form CMA. Beginning July 23, 2012:

- ▶ all prospective applicants for FINRA membership (new member applicants or NMA applicants) pursuant to NASD Rules 1012 (General Provisions) and 1013 (New Member Application and Interview) must submit the revised Form NMA as part of their new member applications; and
- ▶ all prospective applicants for approval of a change in ownership, control or business operations (continuing membership applicants or CMA applicants) pursuant to NASD Rules 1012 and 1017 (Application for Approval of Change in Ownership, Control, or Business Operations) must submit the new electronic Form CMA as part of their continuing membership applications.

FINRA filed the rule change to amend online Form NMA for immediate effectiveness on March 5, 2012, with no changes made to existing rule text.¹ On May 31, 2012, the Securities and Exchange Commission approved the rule filing to amend NASD Rules 1012 and 1017 to adopt the new standardized electronic Form CMA.²

The text of NASD Rules 1012 and 1017 as amended is set forth in Attachment A.

Screenshots of revised Form NMA are set forth in Exhibit 3 to [SR-FINRA-2012-017](#), and screenshots of new Form CMA are set forth in Exhibit 3 to [SR-FINRA-2012-018](#).

Questions concerning this *Notice* should be directed to Joseph Sheirer, Director and Counsel II, Membership Application Program, at (212) 858-5132.

Questions concerning technical requirements and the Forms NMA and CMA should be directed to FINRA's Gateway Call Center at (301) 590-6500.

July 2012

Notice Type

- ▶ Rule Amendment

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Senior Management
- ▶ Systems

Key Topics

- ▶ Continuing Membership Application
- ▶ Form CMA
- ▶ Form NMA
- ▶ New Member Application

Referenced Rules & Notices

- ▶ NASD Rule 1012
- ▶ NASD Rule 1013
- ▶ NASD Rule 1014
- ▶ NASD Rule 1017
- ▶ SEA Rule 15c3-1

Background & Discussion

Revised Form NMA

Pursuant to NASD Rules 1012 and 1013, each applicant for FINRA membership must complete and electronically file the standardized online Form NMA as part of its new member application. The standardized online Form NMA was implemented in 2008 to streamline the new member application process and to assist applicants in compiling a complete application package by identifying and organizing the information and supporting documentation required by NASD Rule 1013 into eight major sections: (I) General Information; (II) Business Lines; (III) Personnel; (IV) Net Capital and Sources of Funding; (V) Contractual and Business Arrangements; (VI) Policies and Procedures; (VII) Facilities; and (VIII) Recordkeeping System.³

FINRA has now revised Form NMA to further streamline the new member application process and to organize Form NMA according to the 12 standards for membership enumerated in NASD Rule 1014 (Department Decision).⁴ The revisions also group information requests on specific topics that currently are located throughout existing Form NMA, as well as reduce current duplicative information requests in Form NMA.

New Form CMA

NASD Rule 1017 provides that certain changes in a member firm's ownership, control or business operations require a continuing membership application.⁵ Currently, NASD Rule 1017 does not require a continuing membership applicant to submit a standardized form as part of its continuing membership application and provides little detail regarding an application's required contents. Instead, each applicant is responsible for determining the contents of its continuing membership application. This often results in information deficiencies, which in turn, creates unnecessary delays in efficiently processing the applications. NASD Rule 1017 also generally requires a continuing membership application to be filed in the district office in which an applicant's principal place of business is located.

In addition, NASD Rule 1012 provides that, unless otherwise prescribed by FINRA, applicants may submit continuing membership applications via first-class mail, overnight courier or hand-delivery (or facsimile upon agreement by FINRA and the applicant). This manner of submitting a continuing membership application reduces the overall efficiency of the process and also creates unnecessary delays in properly forwarding information within FINRA, such as in conveying information to and from the centralized Membership Application Program Group formed in January 2011.

To streamline the continuing membership application process, FINRA has amended NASD Rules 1012 and 1017(b) to require continuing membership applicants to file an application in the manner prescribed by FINRA with the Department of Member Regulation and to include the completed Form CMA as part of the contents of a continuing membership application.

New Form CMA is structured, similarly to the revised Form NMA, according to the 12 standards for membership enumerated in NASD Rule 1014, with adjustments in the content of Form CMA based on the differing nature of the application types.⁶ The new form will provide continuing membership applicants with the benefits of a streamlined application process that new member applicants currently experience via the standardized online Form NMA and is intended to reduce administrative delays that exist in today's manual application processes.

New User Friendly Features of Forms NMA and CMA

The forms will provide new user-friendly features intended to reduce the administrative burden placed on NMA and CMA applicants.⁷ Specifically, those features include:

- ▶ pre-populating certain fields in both forms with information provided to FINRA in other submissions (*e.g.*, Central Registration Depository (CRD[®]) entitlement forms and Form BD) or otherwise available to FINRA from CRD records (*e.g.*, continuing education status), thereby minimizing the time necessary for applicants to complete the new forms;
- ▶ certain information fields in revised Form NMA requesting information that applicants are currently required to provide during FINRA's review of the new member application that were not included in current Form NMA but rather obtained during application review through requests from FINRA for additional information. These information fields, which FINRA added based on industry and staff feedback on existing Form NMA and the new member application process, should reduce the need for extensive follow-up during the review process which currently results in processing delays; and
- ▶ optional information request fields in both forms that can be used by applicants to provide additional information if and when it is applicable to an applicant's proposed business activities, structures or circumstances. The optional field approach is intended to provide flexibility for the significant level of variation seen in member firms' structures, business lines and proposed changes.

Information Requested by Forms NMA and CMA

Below is a synopsis of the information requests, by standard, of revised Form NMA (and the nexus to existing Form NMA information requests) and new Form CMA:

Standard 1 (Overview of the Applicant)

NASD Rule 1014(a)(1) requires Member Regulation to consider whether a new member or continuing membership application and all supporting documents are complete and accurate.

Form NMA: Information fields request certain new member applicant overview information currently contained primarily in Sections I (General Information), II (Business Lines) and VII (Facilities) of existing Form NMA (*e.g.*, formation information, identification of business activities, types of customers (and/or counterparties), owners, officers, directors and control persons, validation of clearing arrangements).

Form CMA: Information fields request certain continuing membership applicant overview information relevant to the proposed business change, such as details of the proposed change, verification of current business activities, new business lines added, supervisors for new business lines and identification of other persons associated with the proposed business change.

Standard 2 (Licenses and Registrations)

NASD Rule 1014(a)(2) requires Member Regulation to consider whether an NMA or CMA applicant and its associated persons have all licenses and registrations required by state and federal authorities and self-regulatory organizations (SROs).

Form NMA: Information fields request relevant information regarding a new member applicant's licenses and registrations (*e.g.*, required licenses and registrations, two-principal requirement waiver, other SRO registrations) that is currently contained primarily in Sections I (General Information) and III (Personnel) of existing Form NMA, as well as incorporating additional information requests (*e.g.*, intent to claim exemptions from registration or seek examination waivers for personnel) that are necessary for the applicant to demonstrate compliance with this standard.

Form CMA: Information fields request relevant information regarding a continuing membership applicant's licenses and registrations, such as changes to required licenses and registrations, new or continuing registration or examination waivers, new or continuing two-principal requirement waiver, other SRO registrations and/or withdrawals from other SRO registrations and new non-registered officers, directors or control persons that are necessary, in light of the proposed business change, for a continuing membership applicant to demonstrate compliance with the standard.

Standard 3 (Compliance with Securities Laws, Just and Equitable Principles of Trade)

NASD Rule 1014(a)(3) requires Member Regulation to consider whether an NMA or CMA applicant and its associated persons are capable of complying with the requirements of the federal securities laws, the rules and regulations thereunder, and FINRA rules, including observing high standards of commercial honor and just and equitable principles of trade.

Form NMA: Information fields consist of requests that are contained in Sections I (General Information) and III (Personnel) of existing Form NMA (*e.g.*, disciplinary history) and also incorporate additional information requests (*e.g.*, state or federal orders or decrees, statements of claims, settlement agreements) that are necessary for the new member applicant to demonstrate compliance with the standard.

Form CMA: Information fields request relevant information (*e.g.*, disciplinary history) and documentation (*e.g.*, state or federal orders or decrees, statements of claims, cancelled checks for payment of arbitration awards, proofs of settlement, settlement agreements) that are necessary, in light of the proposed business change, for a continuing membership applicant to demonstrate compliance with the standard.

Standard 4 (Contractual and Business Relationships)

NASD Rule 1014(a)(4) requires Member Regulation to consider whether an NMA or CMA applicant has established all contractual or other arrangements and business relationships with banks, clearing corporations, service bureaus or others necessary to: (A) initiate the operations described in the applicant's business plan, considering the nature and scope of operations and the number of personnel; and (B) comply with the federal securities laws, the rules and regulations thereunder and FINRA rules.

Form NMA: Information fields include requests for information regarding an applicant's contractual and business relationships that are contained in Sections I (General Information), IV (Net Capital and Sources of Funding) and V (Contractual and Business Arrangements) of existing Form NMA (*e.g.*, description of contractual arrangements, expense sharing agreements, financing arrangements, fidelity bonds or fidelity bond applications, support and service agreements, auditor information).

Form CMA: Information fields consist of requests regarding a continuing membership applicant's contractual and business relationships that would be relevant to the proposed business change (*e.g.*, description of new or amended contractual arrangements, expense sharing agreements, financing arrangements, fidelity bonds or fidelity bond applications, support and service agreements).

Standard 5 (Facilities)

NASD Rule 1014(a)(5) requires Member Regulation to consider whether an NMA or CMA applicant has, or has adequate plans, to obtain facilities that are sufficient to: (A) initiate the operations described in the applicant's business plan, considering the nature and scope of operations and the number of personnel; and (B) comply with the federal securities laws, the rules and regulations thereunder and FINRA rules.

Form NMA: Information fields consist of requests regarding an applicant's facilities that are primarily contained in Section VII (Facilities) of existing Form NMA (*e.g.*, space sharing arrangements, leasing or sub-leasing arrangements) and also incorporate additional information requests that are necessary to determine whether the applicant complies with the standard (*e.g.*, authorizations to sublet, deeds of ownership).

Form CMA: Information fields request relevant information regarding a continuing membership applicant's facilities, such as material changes to facilities or locations, departmental information barriers, space sharing arrangements, lease and/or sub-lease agreements.

Standard 6 (Communications and Operational Systems)

NASD Rule 1014(a)(6) requires Member Regulation to consider whether the communications and operational systems an NMA or CMA applicant intends to employ for the purpose of conducting business with customers and other members are adequate and provide reasonably for business continuity.

Form NMA: Information fields include requests regarding an applicant's communications and operational systems that are contained in Sections VI (Policies and Procedures) and VII (Facilities) of existing Form NMA (*e.g.*, communications and operational systems descriptions, supervision arrangements of multiple locations, business continuity plan documents), as well as requests for additional information that are necessary for the applicant to demonstrate compliance with the standard (*e.g.*, information relating to the use of social media sites).

Form CMA: Information fields consist of requests regarding a continuing membership applicant's communications and operational systems, such as communications and operational systems changes, supervision arrangements of multiple locations, business continuity plan documents and information relating to the applicant's use of social media sites.

Standard 7 (Maintaining Adequate Net Capital)

NASD Rule 1014(a)(7) requires Member Regulation to consider whether an NMA or CMA applicant is capable of maintaining a level of net capital in excess of the minimum net capital requirements set forth in SEA Rule 15c3-1 adequate to support the applicant's intended business operations on a continuing basis.

Form NMA: Information fields consist of requests regarding an applicant's net capital requirements that are contained primarily in Section IV (Net Capital and Sources of Funding) of existing Form NMA (*e.g.*, information on the nature and source of capital, additional funding plans, minimum net capital requirements, future funding sources).

Form CMA: Information fields request relevant information regarding a continuing membership applicant's net capital requirements, such as information on the nature and source of capital, additional funding plans, minimum net capital requirements and future funding sources.

Standard 8 (Financial Controls)

NASD Rule 1014(a)(8) requires Member Regulation to consider whether an NMA or CMA applicant has financial controls to ensure compliance with the federal securities laws, the rules and regulations thereunder and FINRA rules.

Form NMA: Information fields include requests regarding an applicant's financial controls that are contained primarily in Sections I (General Information), III (Personnel) and VI (Policies and Procedures) of existing Form NMA (*e.g.*, information regarding the registered financial and operations principal's (FINOP's) experience, financial controls, FINOP outside business activity notification) and also incorporate requests for additional information that are necessary for the applicant to demonstrate compliance with the standard (*e.g.*, net capital deficiency plans).

Form CMA: Information fields request relevant information regarding a continuing membership applicant's financial controls, such as identification of any change to the applicant's FINOP and the impact of the proposed business change on the continuing membership applicant's financial controls.

Standard 9 (Written Procedures)

NASD Rule 1014(a)(9) requires Member Regulation to determine whether an NMA or CMA applicant has compliance, supervisory, operational and internal control practices and standards that are consistent with practices and standards regularly employed in the investment banking or securities business, taking into account the nature and scope of the applicant's proposed business.

Form NMA: Information fields consist of requests regarding an applicant's written procedures that are contained in Sections III (Personnel), VI (Policies and Procedures) and VIII (Recordkeeping System) of existing Form NMA (*e.g.*, written supervisory procedures (WSPs), WSP checklist, sample reports to support supervision and financial controls, heightened supervisory procedures attestation).

Form CMA: Information fields request relevant information regarding a continuing membership applicant's written procedures that are applicable to the proposed business change, such as the impact of proposed change on the applicant's WSPs and WSP checklist and sample reports to support supervision and financial controls.

Standard 10 (Supervisory Structure)

NASD Rule 1014(a)(10) requires Member Regulation to determine whether an NMA or CMA applicant has a supervisory system, including WSPs, internal operating procedures (including operational and internal controls) and compliance procedures designed to prevent and detect, to the extent practicable, violations of the federal securities laws, the rules and regulations thereunder and FINRA rules.

Form NMA: Information fields consist of requests regarding a new member applicant's supervisory structure that are contained in Sections I (General Information) and III (Personnel) of existing Form NMA (*e.g.*, information regarding supervisors' experience and duties, chief compliance officers' experience, non-FINOP outside business activities notifications).

Form CMA: Information fields contain requests regarding a continuing membership applicant's supervisory structure that are applicable to the proposed business change, such as changes to supervisory or management personnel, information regarding supervisors' experience and duties, chief compliance officers' experience and non-FINOP outside business activities notifications.

Standard 11 (Books and Records)

NASD Rule 1014(a)(11) requires Member Regulation to determine whether an NMA or CMA applicant has a recordkeeping system that enables the applicant to comply with federal, state and SRO recordkeeping requirements and a staff that is sufficient in qualifications and number to prepare and preserve required records.

Form NMA: Information fields consist of requests regarding an applicant's books and records that are contained primarily in Section VIII (Recordkeeping System) of existing Form NMA (*e.g.*, recordkeeping system, sample books and records, recordkeeping service providers).

Form CMA: Information fields consist of requests regarding a continuing membership applicant's books and records that are applicable to the proposed business change, such as the impact of the potential business change on an applicant's recordkeeping systems and recordkeeping service providers and sample books and records relating to any new business activities.

Standard 12 (Continuing Education)

NASD Rule 1014(a)(12) requires Member Regulation to determine whether an NMA or CMA applicant has completed a training needs assessment and has a written training plan that complies with the continuing education (CE) requirements imposed by the federal securities laws, the rules and regulations thereunder and FINRA rules.

Form NMA: Information fields consist of requests regarding an applicant's CE obligations that are contained in Section VI (Policies and Procedures) of existing Form NMA (*e.g.*, firm element owner identification, CE checklist, CE needs assessment) and also incorporate additional requests for information that are necessary for the applicant to demonstrate compliance with the standard (*e.g.*, information regarding the applicant's CE deficiency mitigation plan).

Form CMA: Information fields consist of requests regarding a continuing membership applicant's CE obligations that are applicable to the proposed business change, such as changes to the applicant's CE program and a revised CE training needs assessment and written training plan.

Endnotes

1. See Securities Exchange Act Release No. 66555 (March 9, 2012), 77 FR 15445 (March 15, 2012) (SR-FINRA-2012-017) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Online Form NMA, the Standardized Membership Application Form Applicants Must File Pursuant to NASD Rule 1013 (New Member Application and Interview)).
2. See Securities Exchange Act Release No. 67082 (May 31, 2012), 77 FR 33539 (June 6, 2012) (SR-FINRA-2012-018) (Order Granting Approval of Proposed Rule Change as Modified by Amendment No. 1, to Amend NASD Rules 1012 (General Provisions) and 1017 (Application for Approval of Change in Ownership, Control, or Business Operations) to Adopt Form CMA).
3. See Securities Exchange Act Release No. 53564 (March 29, 2006), 71 FR 16847 (April 4, 2006) (SR-NASD-2006-038) (Order Approving File No. SR-NASD-2006-038); [Notice to Members 06-16](#) (April 2006) (NASD Amends Rule 1013 to Adopt a Standardized Application Form (Form NMA) to be Used by All New Member Applicants); see also Securities Exchange Act Release No. 55412 (March 7, 2007), 72 FR 11414 (March 13, 2007) (Order Approving File No. SR-NASD-2007-015); [Notice to Members 07-20](#) (May 2007) (NASD Amends Rules 1012 and 1013 to Require Applicants for Membership to Submit Applications Using Online Form NMA); Securities Exchange Act Release No. 57480 (March 12, 2008), 73 FR 14519 (March 18, 2008) (SR-FINRA-2008-008) (Notice of Filing and Immediate Effectiveness of Proposed Rule

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- Change To Amend Rule 1013 (New Member Application and Interview) and the Manner in Which Membership Applicants Submit Their Applications to FINRA); [Regulatory Notice 08-14](#) (March 2008) (FINRA Implements New Electronic Form NMA Requirement).
4. While NASD Rule 1014 sets forth 14 standards for membership, Form NMA does not elicit specific information from applicants regarding standards 13 (FINRA does not possess information indicating that the applicant may circumvent, evade, or otherwise avoid compliance with the federal securities laws, the rules or regulations thereunder or FINRA rules) or 14 (the application is consistent with the federal securities laws, the rules and regulations thereunder and FINRA rules). See NASD Rule 1014(a)(13) and (14).
 5. Among other things, changes that require an application include a merger of a member firm with another member firm, a direct or indirect acquisition by a member firm of another member firm, a change in equity ownership or partnership capital of the member firm that results in one person or entity directly or indirectly owning or controlling 25 percent or more of the equity or partnership capital or a “material change in business operations” as defined in NASD Rule 1011(k). NASD Rule 1011(k) defines a “material change in business operations” as including, but not limited to: (1) removing or modifying a membership agreement restriction; (2) market making, underwriting, or acting as a dealer for the first time; and (3) adding business activities that require a higher minimum net capital under SEA Rule 15c3-1.
 6. Consistent with revised Form NMA, new Form CMA does not elicit specific information from applicants regarding NASD Rule 1014’s standards 13 or 14. *See supra* note 4.
 7. FINRA worked closely with an industry task force, comprised of seven representatives from small and large firms, several of whom also are consultants, during the development of both forms. Among other things, the task force’s input assisted the staff to make these user-friendly changes.

ATTACHMENT A

Attachment A shows the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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1000. MEMBERSHIP, REGISTRATION AND QUALIFICATION REQUIREMENTS

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1010. Membership Proceedings

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1012. General Provisions

(a) Filing by Applicant or Service by FINRA

(1) An Applicant for membership shall file an application in the manner prescribed in Rule 1013.

(2) An Applicant seeking approval of a change of ownership, control, or business operations shall file an application in the manner prescribed in Rule 1017.

(2) through (4) renumbered as (3) through (5).

(b) through (e) No Change.

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1017. Application for Approval of Change in Ownership, Control, or Business Operations

(a) No Change.

(b) Filing and Content of Application

(1) The member shall file the application in the manner prescribed by FINRA with the Department of Member Regulation (“the Department”) [at the district office in the district in which the member’s principal place of business is located. If the application involves a merger between members with principal places of business in two or more districts, the application shall be filed and processed by the district office wherein the surviving firm’s principal place of business will be located].

(2) An applicant shall submit an application that includes a Form CMA including a detailed description of [The application shall describe in detail] the change in ownership, control, or business operations [and include a business plan, pro forma financials, an organizational chart, and written supervisory procedures reflecting the change].

(A) through (C) No Change.

(c) through (k) No Change.

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