

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 14	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2014 - * 006 Amendment No. (req. for Amendments *) 1
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Filing by Financial Industry Regulatory Authority
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input type="checkbox"/>	Amendment * <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
	Section 3C(b)(2) * <input type="checkbox"/>

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Matthew Last Name * Vitek

Title * Associate General Counsel

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date 07/11/2014 Vice President and Associate General Counsel

By James S. Wrona

(Name *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

jim.wrona@finra.org, jim.wrona@finra.org

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

On January 31, 2014, FINRA filed with the Securities and Exchange Commission (“Commission” or “SEC”) SR-FINRA-2014-006 to amend the provisions addressing per share estimated valuations for direct participation program (“DPP”) and unlisted real estate investment trust (“REIT”) securities. The proposed rule change would amend: (1) NASD Rule 2340 (Customer Account Statements) to modify the requirements relating to the inclusion of a per share estimated value for DPP and REIT securities on a customer account statement; and (2) FINRA Rule 2310 (Direct Participation Programs) to modify the requirements applicable to members’ participation in a public offering of DPP or REIT securities.

On February 19, 2014, the SEC published the proposed rule change for comment in the Federal Register.¹ The first comment period closed on March 12, 2014. The SEC received 18 comment letters in response to this first comment period. On May 20, 2014, the SEC instituted proceedings to determine whether to approve or disapprove the proposed rule change and noticed in the Federal Register a new comment period, which closed on June 26, 2014.² In response to this second comment period, the SEC received five comment letters. FINRA is submitting by separate letter its response to comments on the proposed rule change contemporaneously with this Partial Amendment No. 1.

In response to comments received by the Commission, FINRA is proposing to amend the proposed rule change as follows:

1. FINRA revised proposed NASD Rule 2340(c) to require general securities members to include in customer account statements a per share estimated value for a DPP or REIT security developed in a manner reasonably designed to ensure that the per share estimated value is reliable. Thus, FINRA would eliminate the voluntary or “not priced” option proposed in the original rule filing. Moreover, NASD Rule 2340(c)(1) would state that the per share estimated value will be deemed to have been developed in a manner reasonably designed to ensure that it is reliable if the member uses one of the two specified methodologies.
2. FINRA eliminated the “no reason to believe that the per share estimated value is unreliable” standard from the general provision in proposed NASD Rule 2340(c). As revised, NASD Rule 2340(c) would require disclosure of valuations and NASD Rule 2340(c)(1) would deem valuations calculated under the two defined methodologies to have been developed in a manner reasonably designed to ensure that they are reliable. As a result, the “no reason to believe that the per share estimated value is unreliable” standard in the general provision in proposed

¹ See Securities Exchange Act Release No. 71545 (February 12, 2014), 79 FR 9535 (February 19, 2014) (Notice of Filing of Proposed Rule Change; SR-FINRA-2014-006).

² See Securities Exchange Act Release No. 72193 (May 20, 2014), 79 FR 30217 (May 27, 2014) (Order Instituting Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change; SR-FINRA-2014-006).

NASD Rule 2340(c) is not necessary. If with experience FINRA determines that a more reliable valuation could be developed under another methodology, FINRA will consider recommending further amendments to the rule.

3. FINRA removed the “over distribution” deduction from the per share estimated value in the “net investment” methodology in proposed NASD Rule 2340(c)(1)(A)(ii) and replaced it with enhanced disclosure of “over distribution” on customer account statements. As revised, proposed NASD Rule 2340(c)(2)(A) would require account statements that provide a “net investment” per share estimated value for a DPP or REIT security to disclose, if applicable, prominently and in proximity to disclosure of distributions and the per share estimated value the following: “IMPORTANT – Part of your distribution includes a return of capital. Any distribution that represents a return of capital reduces the estimated per share value shown on your account statement.”

4. FINRA revised the “net investment” methodology in proposed NASD Rule 2340(c)(1)(A) to make clear that firms may use the maximum offering percentage when the issuer provides a range of amounts available for investment unless the member has reason to believe that such percentage is unreliable, in which case the member must use the minimum offering percentage.

5. FINRA modified the “net investment” methodology in proposed NASD Rule 2340(c)(1)(A) to lengthen the time period in which members may use the “net investment” methodology. The revised proposal would allow “net investment” to be included on customer account statements at any time before 150 days following the second anniversary of breaking escrow. FINRA made a parallel change to proposed FINRA Rule 2310(b)(5)(B)(i).

6. FINRA modified proposed FINRA Rule 2310(b)(5)(B) to clarify issuer disclosure requirements, including the elimination of the requirement to identify the service used to obtain a valuation, and require more frequent valuations. As revised, proposed FINRA Rule 2310(b)(5)(D)(i) would require that the per share estimated value be based on valuations of the assets and liabilities of the DPP or REIT performed at least annually, by, or with the material assistance or confirmation of, a third-party valuation expert or service.

7. FINRA modified proposed FINRA Rule 2310(b)(5) to specifically except DPPs that are subject to the Investment Company Act of 1940 (“1940 Act”) from the requirements under the rule in recognition that business development companies that fall under the definition of DPP are subject to an existing regulatory framework under the 1940 Act for determining and publishing net asset value on a regular basis. In addition, FINRA revised proposed NASD Rule 2340(c)(1)(B) to state, in the case of DPPs subject to the 1940 Act, the appraised value methodology under Rule 2340(c)(1)(B) shall be consistent with the valuation requirements of the 1940 Act and the rules thereunder.

8. FINRA extended the effective date of the proposed rule change to no earlier than 18 months following Commission approval. FINRA believes this extended timeframe will give industry participants time to make adjustments to product structures and any necessary operational changes.

In addition to these changes made in response to comments, FINRA is proposing to amend the proposed rule change as follows:

1. FINRA changed the title of NASD Rule 2340(c) from “Unlisted DPP/REIT Securities” to “DPP and Unlisted REIT Securities” to more accurately reflect the types of securities that are subject to the rule. FINRA also changed the title of proposed NASD Rule 2340(c)(1)(B) from “independent valuation” to “appraised value” to more accurately reflect the per share estimated value methodology.
2. FINRA revised the “net investment” methodology in proposed NASD Rule 2340(c)(1)(A)(i) to clarify that “another equivalent disclosure” means “another equivalent disclosure that reflects the estimated percentage deduction from the aggregate dollar amount of securities registered for sale to the public of sales commissions, dealer manager fees, and estimated issuer offering and organization expenses.”
3. FINRA modified the “appraised value” methodology to clarify in proposed NASD Rule 2340(c)(1)(B) that the member may include a per share estimated value reflecting an appraised valuation disclosed in the Issuer Report based on the valuations of the assets and liabilities of the DPP or REIT performed at least annually, by, or with the material assistance or confirmation of, a third-party valuation expert or service and derived from a methodology that conforms to standard industry practice.
4. FINRA eliminated the required disclosures in proposed NASD Rule 2340(c)(2)(A)(i) regarding characteristics of the per share estimated value and proposed NASD Rule 2340(c)(2)(B) on the “not priced” option. FINRA believes that streamlined disclosure will be more effective than also requiring an account statement to describe per share estimated value, its source, and the method by which it was developed, as would have been required under proposed NASD Rule 2340(c)(2)(A)(i) in the original filing. In addition, the disclosures in proposed NASD Rule 2340(c)(2)(B) are no longer necessary because the revised proposal requires a general securities member to include in a customer account statement a per share estimated value of a DPP or REIT security.
5. FINRA modified proposed FINRA Rule 2310(b)(5) to state that a member shall not participate in a public offering of the securities of a DPP that is not subject to the requirements of the 1940 Act or of a REIT unless they meet the requirements under the rule. In addition, FINRA revised proposed FINRA Rule 2310(b)(5)(A) to clarify that the issuer of the DPP or REIT must agree to disclose a per share estimated value of the DPP or REIT security, developed in a manner

reasonably designed to ensure it is reliable, in the DPP or REIT periodic reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act.

6. FINRA clarified in proposed FINRA Rule 2310(b)(5)(B)(ii)c. that the valuation must be accompanied by a written opinion or report by the issuer, delivered at least annually to the broker-dealer, that explains the scope of the review, the methodology used to develop the valuation or valuations, and the basis for the value or values reported.

7. FINRA made a technical change to delete FINRA Rule 5110(f)(2)(L) instead of the proposed deletion of FINRA Rule 5110(f)(2)(M) because FINRA renumbered the subparagraphs of FINRA Rule 5110(f)(2) after the filing of the proposed rule change.³

³ See Securities Exchange Act Release No. 72114 (May 7, 2014), 79 FR 27355 (May 13, 2014) (Order Approving a Proposed Rule Change; SR-FINRA-2014-004).

EXHIBIT 5

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

* * * * *

NASD Rule

* * * * *

2300. TRANSACTIONS WITH CUSTOMERS

* * * * *

2340. Customer Account Statements

(a) through (b) No Change.

(c) **DPP[/ and Unlisted REIT Securities**

[(1)(A) Voluntary Estimated Value]

[A general securities member may provide a per share estimated value for a direct participation program (“DPP”) or real estate investment trust (“REIT”) security on an account statement, provided the member meets the conditions of paragraphs (b)(2) and (3) below.]

[(B) Mandatory Estimated Value]

[If the annual report of a DPP or REIT includes a per share estimated value for a DPP or REIT security that is held in the customer's account or included on the customer's account statement, a general securities member must include an estimated value from the annual report, an independent valuation service, or any other source, in the first account statement issued by the member thereafter, provided that the member meets the conditions of paragraphs (b)(2) and (3) below.]

[(2) A member may only provide a per share estimated value for a DPP or REIT security on an account statement if the estimated value has been developed from data that is as of a date no more than 18 months prior to the date that the statement is issued.]

[(3) If an account statement provides an estimated value for a DPP or REIT security, it must include:]

[(A) a brief description of the estimated value, its source, and the method by which it was developed; and]

[(B) disclosure that DPP or REIT securities are generally illiquid, and that the estimated value may not be realized when the investor seeks to liquidate the security.]

[(4) Notwithstanding the requirement in paragraph (b)(1)(B), a member must refrain from including a per share estimated value for a DPP or REIT security on an account statement if the member can demonstrate the value was inaccurate as of the date of the valuation or is no longer accurate as a result of a material change in the operations or assets of the program or trust.]

[(5) If an account statement does not provide an estimated value for a DPP or REIT security, it must include disclosure that:]

[(A) DPP or REIT securities are generally illiquid;]

[(B) the value of the security will be different than its purchase price; and]

[(C) if applicable, that accurate valuation information is not available.]

A general securities member shall include in a customer account statement a per share estimated value of a direct participation program (DPP) or unlisted real estate investment trust (REIT) security, developed in a manner reasonably designed to ensure that the per share estimated value is reliable, and the disclosures in paragraph (c)(2) as applicable.

(1) For purposes of this paragraph (c), a per share estimated value for a DPP or REIT security will be deemed to have been developed in a manner reasonably designed to ensure that it is reliable if the member uses one of the following per share estimated value methodologies.

(A) Net Investment

At any time before 150 days following the second anniversary of breaking escrow, the member may include a per share estimated value reflecting the “net investment” disclosed in the issuer’s most recent periodic or current report (“Issuer Report”). “Net investment” shall be based on the “amount available for investment” percentage in the “Estimated Use of Proceeds” section of the offering prospectus or, where “amount available for investment” is not provided, another equivalent disclosure that reflects the estimated percentage deduction from the aggregate dollar amount of securities registered for sale to the public of sales commissions, dealer manager fees, and estimated issuer offering and organization expenses. When the issuer provides a range of amounts available for investment, the member may use the maximum offering percentage unless the member has reason to believe that such percentage

is unreliable, in which case the member shall use the minimum offering percentage.

(B) Appraised Value

At any time, the member may include a per share estimated value reflecting an appraised valuation disclosed in the Issuer Report, which, in the case of DPPs subject to the Investment Company Act of 1940 (“1940 Act”), shall be consistent with the valuation requirements of the 1940 Act and the rules thereunder or, in the case of all other DPPs and REITs, shall be:

(i) based on valuations of the assets and liabilities of the DPP or REIT performed at least annually, by, or with the material assistance or confirmation of, a third-party valuation expert or service; and

(ii) derived from a methodology that conforms to standard industry practice.

(2) Disclosures

(A) An account statement that provides a “net investment” per share estimated value for a DPP or REIT security under paragraph (c)(1)(A) shall disclose, if applicable, prominently and in proximity to disclosure of distributions and the per share estimated value the following statements: “IMPORTANT – Part of your distribution includes a return of capital. Any distribution that represents a return of capital reduces the estimated per share value shown on your account statement.”

(B) Any account statement that provides a per share estimated value for a DPP or REIT security shall disclose that the DPP or REIT securities are not listed on a national securities exchange, are generally illiquid and that, even if a customer is able to sell the securities, the price received may be less than the per share estimated value provided in the account statement.

(d) Definitions

For purposes of this Rule, the following terms will have the stated meanings:

(1) through (2) No Change.

(3) “direct participation program” or “direct participation program security” refers to the publicly issued equity securities of a direct participation program as defined in FINRA Rule 2310[2810] (including limited liability companies), but does not include [securities on deposit in a registered securities depository and settled regular way,] securities listed on a national securities exchange[,], or any program registered as a commodity pool with the [Commodities] Commodity Futures Trading Commission.

(4) “real estate investment trust” or “real estate investment trust security” refers to the publicly issued equity securities of a real estate investment trust as defined in Section 856 of the Internal Revenue Code, but does not include [securities on deposit in a registered securities depository and settled regular way or] securities listed on a national securities exchange.

(5) through (6) No Change.

(e) No Change.

* * * * *

FINRA RULES

* * * * *

2300. SPECIAL PRODUCTS

* * * * *

2310. Direct Participation Programs

(a) No Change.

(b) Requirements

(1) through (4) No Change.

(5) Valuation for Customer Account Statements

[No] A member shall not [may] participate in a public offering of the securities of a direct participation program (DPP) that is not subject to the requirements of the Investment Company Act of 1940 or of a REIT [securities] unless the issuer [general partner or sponsor] of the [program] DPP or REIT has agreed to disclose: [will disclose in each annual report distributed to investors pursuant to Section 13(a) of the Exchange Act a per share estimated value of the direct participation program securities, the method by which it was developed, and the date of the data used to develop the estimated value.]

(A) a per share estimated value of the DPP or REIT security, developed in a manner reasonably designed to ensure it is reliable, in the DPP or REIT periodic reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act;

(B) an explanation of the method by which the per share estimated value was developed;

(C) the date of the valuation; and

(D) in a periodic or current report filed pursuant to Section 13(a) or 15(d) of the Exchange Act within 150 days following the second anniversary of breaking escrow and in each annual report thereafter, a per share estimated value:

(i) based on valuations of the assets and liabilities of the DPP or REIT performed at least annually, by, or with the material assistance or confirmation of, a third-party valuation expert or service;

(ii) derived from a methodology that conforms to standard industry practice; and

(iii) accompanied by a written opinion or report by the issuer, delivered at least annually, that explains the scope of the review, the methodology used to develop the valuation or valuations, and the basis for the value or values reported.

(6) No Change.

(c) through (d) No Change.

* * * * *

5100. SECURITIES OFFERINGS, UNDERWRITING AND COMPENSATION

* * * * *

5110. Corporate Financing Rule — Underwriting Terms and Arrangements

(a) through (e) No Change.

(f) Unreasonable Terms and Arrangements

(1) No Change.

(2) Prohibited Arrangements

Without limiting the foregoing, the following terms and arrangements, when proposed in connection with a public offering of securities, shall be unfair and unreasonable.

(A) through (K) No Change.

[(L) For a member or person associated with a member to participate in a public offering of real estate investment trust securities, as defined in NASD Rule 2340(c)(4), unless the trustee will disclose in each annual report distributed to investors pursuant to Section 13(a) of the Exchange Act a per share estimated value of the trust securities, the method by which it was developed, and the date of the data used to develop the estimated value.]

(g) through (i) No Change.

* * * * *