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Filing by Financial Industry Regulatory Authority
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
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			Rule		
Pilot	Extension of Time Period for Commission Action *	Date Expires *	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" 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) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

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

Description

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

Proposed rule change to amend FINRA Regulation, Inc. By-Laws to reorganize FINRA District Committees into Regional Committees and conforming changes to FINRA rules

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 * Meredith Last Name * Cordisco

Title * Associate General Counsel

E-mail * meredith.cordisco@finra.org

Telephone * (202) 728-8018 Fax (202) 728-8264

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 05/18/2018 Senior Vice President and Deputy General Counsel

By Patrice Gliniecki Patrice Gliniecki,

(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.

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

Add Remove View

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.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act,” or “Exchange Act”),¹ Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend the By-Laws of FINRA Regulation, Inc. (“FINRA Regulation By-Laws” or “By-Laws”), FINRA’s regulatory subsidiary, with regard to the District Committee structure and governance by, among other things, reorganizing the District Committees into Regional Committees that mirror the regions in which FINRA’s districts are administratively grouped and managed by FINRA and revising candidate and member voting eligibility standards in a manner designed to result in committees that better reflect the industry and members within each region. The proposed rule change also makes conforming amendments to the FINRA Regulation By-Laws and FINRA rules to replace, where appropriate, District Committee references with Regional Committee references.²

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

¹ 15 U.S.C. 78s(b)(1).

² The current FINRA rulebook consists of: (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from New York Stock Exchange LLC (“NYSE”) (“Incorporated NYSE Rules”) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the “Transitional Rulebook”). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (“Dual Members”). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see [Information Notice](#), March 12, 2008 (Rulebook Consolidation Process).

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on December 14, 2017, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing so FINRA can implement the proposed rule change immediately.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

I. Background

In March 2017, FINRA issued a Special Notice³ on engagement soliciting comment regarding its engagement programs, including FINRA's District Committees generally. Several commenters to the Special Notice provided observations and suggestions regarding the District Committees.⁴ Some commenters commended the

³ Special Notice – Engagement Initiative (March 21, 2017), available at <http://www.finra.org/industry/special-notice-032117>. The comment period closed on June 19, 2017. FINRA received 46 comment letters in response to the Special Notice.

⁴ Richard Wallace (“Wallace”), Wells Fargo Advisors (“Wells Fargo”), National Society of Compliance Professionals (“NSCP”), Commonwealth Financial Network (“Commonwealth”), Richard K. Bryant (“Bryant”), Midwest Region Committees, Elmcore Securities, LLC, Better Markets, Inc., Financial Services Institute (“FSI”) and Lara, May & Associates, LLC (“Lara, May”).

District Committees,⁵ noting among other things, that they provide an opportunity to interact with FINRA senior staff,⁶ serve as an important means of receiving constructive feedback,⁷ and provide important service on disciplinary panels.⁸ One commenter also stated that the committee meetings offer FINRA the opportunity to obtain more field-based feedback from financial advisors that directly serve investors and that the financial advisors benefit from open dialogue on timely, relevant topics.⁹ Another commenter, however, questioned the committees' usefulness, referring to the committee meetings as "one-way information session[s]" about soon-to-be-introduced rules.¹⁰ In a different vein, one commenter suggested increasing committee "diversity" by including non-industry representatives.¹¹

In addition to the Special Notice feedback, FINRA has noted the membership's general lack of interest in District Committee service. The number of District Committee seat vacancies is the primary indicator of the membership's declining interest in District Committee service. For the past six years, there has been an average of 29 vacant District Committee seats per year. Of this 29-seat average, 13 (approximately 45%) have been

⁵ Wallace, Commonwealth, NSCP, Wells Fargo, and FSI.

⁶ Commonwealth.

⁷ FSI.

⁸ Wallace.

⁹ Wells Fargo. The commenter also recommended adding two quarterly teleconference District Committee meetings in addition to the District Committees' bi-annual in-person meetings.

¹⁰ Bryant.

¹¹ Better Markets, Inc.

contested seats (two or more candidates), eight (approximately 28%) have been seats with only one candidate, and eight (approximately 28%) have been seats without any candidates, thus requiring FINRA to find an eligible person to appoint to the seat.¹²

II. Proposed Rule Change

FINRA is proposing to amend the FINRA Regulation By-Laws to reorganize the District Committees as Regional Committees and to modify the committees' size, structure, and governance to respond to Special Notice feedback and address decreasing interest in District Committee service.

Reorganizing District Committees as Regional Committees

The By-Laws require the FINRA Regulation Board of Directors ("FINRA Regulation Board")¹³ to establish districts to assist with the administration of its affairs and provide that the FINRA Regulation Board may organize the districts into regions to promote efficiency and sound administration.¹⁴ The By-Laws further provide that the

¹² See FINRA Regulation By-Laws, Article VIII, Section 8.8(b) (in the event there is no candidate designated for a vacant seat, FINRA's Chief Executive Officer or his or her designee shall appoint a qualified individual to fill the vacancy for a full term). A number of reasons may contribute to individuals' failure to pursue a District Committee seat, such as a lack of awareness by some members of the opportunity and benefits of serving on a District Committee, a perceived lack of time to devote to the position or an individual's belief that he or she lacks sufficient industry experience to carry out a District Committee member's responsibilities. In addition, based on the Special Notice commenters' feedback outlined above, some people may not consider the District Committees to be useful or performing a meaningful role.

¹³ FINRA Regulation, Inc. ("FINRA Regulation") is a subsidiary of FINRA that operates according to the Plan of Allocation and Delegation of Functions by FINRA to FINRA Regulation, Inc.

¹⁴ See FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts and Regions).

FINRA Regulation Board may make changes from time to time in the number or boundaries of the districts or regions as it deems necessary or appropriate.¹⁵ The FINRA Regulation Board has established 11 districts, overseen by FINRA District Offices, and has organized them into five regions:

- West (Districts 1 (San Francisco), 2 (Los Angeles) and 3 (Denver));
- Midwest (Districts 4 (Kansas City) and 8 (Chicago));
- South (Districts 5 (New Orleans), 6 (Dallas) and 7 (Atlanta and Boca Raton));
- North (Districts 9 (Philadelphia and New Jersey) and 11 (Boston)); and
- New York (District 10 (Long Island and New York)).¹⁶

Pursuant to the By-Laws, each district elects a District Committee.¹⁷ FINRA currently manages the 11 District Committees as region-wide committees based on the administrative groupings outlined above, including having them meet bi-annually on a regional basis.¹⁸

FINRA proposes to formally restructure the District Committees as Regional Committees. The proposed change will align the committee structure with FINRA's practice of managing the District Committees as region-wide committees.

¹⁵ See supra note 14.

¹⁶ See Schedule A to FINRA Regulation By-Laws and <http://www.finra.org/industry/finra-district-offices>.

¹⁷ See FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

¹⁸ See Securities Exchange Act Release No. 64363 (April 28, 2011), 76 FR 25397 (May 4, 2011) (Order Approving File No. SR-FINRA-2011-011) ("2011 Rule Filing Approval Order") (amending the By-Laws to, among other things, codify the practice of having the District Committees meet on a regional basis).

Regional Committee Composition and Size

FINRA proposes amending Section 8.2(a) of the FINRA Regulation By-Laws to require that each Regional Committee have six elected members from each district within that committee's region. Regional Committees representing three districts (i.e., the South and West) will have 18 members, and Regional Committees representing two districts (i.e., Midwest, North, and New York) will have 12 members. Currently, District Committees are generally composed of seven to 14 elected members, with each committee reflecting a configuration of three small, one mid-size and three large firm representatives.¹⁹ The three-one-three composition is intended to align District Committee representation more closely with the industry representation on the FINRA Board.²⁰ However, that configuration does not necessarily reflect the industry composition within the regions as each region differs regarding firm number, size and business lines. For instance, while the vast majority of branch offices within each region are large firm branch offices, most of the firms headquartered in each region are small

¹⁹ See FINRA Regulation By-Laws, Article VIII, Section 8.2(a); see also FINRA Regulation By-Laws, Article I, paragraph (jj) (definition of "Small Firm"), FINRA Regulation By-Laws, Article I, paragraph (aa) (definition of "Mid-Size Firm"), and FINRA Regulation By-Laws, Article I, paragraph (y) (definition of "Large Firm").

²⁰ See supra note 18 (2011 Rule Filing Approval Order amending the FINRA Regulation By-Laws to, among other things, adjust the size and composition of the District Committees to require three-sevenths of the District Committee members to be associated with Small Firms (up to 150 registered persons), one-seventh with Mid-Size Firms (151 to 499 registered persons), and three-sevenths with Large Firms (500 or more registered persons), thereby aligning District Committee representation more closely with the industry representation on the FINRA Board).

firms.²¹ In addition, when vacancies arise, the three-one-three District Committee configuration can make it more challenging to find eligible individuals within the districts who can be appointed to serve as committee members. Although large firms have many branches per district, FINRA staff has found it more difficult to find large-firm individuals to serve in districts where the firm is not headquartered. Conversely, FINRA staff has found that small-firm individuals are interested in committee service, but otherwise eligible individuals cannot be appointed if the prescribed small-firm committee positions are already filled. Thus, FINRA is not proposing to retain the three-one-three configuration.

The proposed amendments would reduce the number of committee members in the West and South regions from 21 to 18 and in the Midwest, North, and New York regions from 14 to 12. This size recalibration is intended to align the number of committee seats with the declining membership interest in committee service while still maintaining adequate district-level representation on the Regional Committees.²²

²¹ Based on data from the Central Registration Depository (“Web CRD”[®]), the West Region has 31,075 large-firm, 2,198 mid-size-firm, and 2,292 small-firm branch offices and 24 large firms, 24 mid-size firms, and 592 small firms headquartered in the region. The Midwest Region has 34,661 large-firm, 3,071 mid-size-firm, and 2,269 small-firm branch offices and 48 large firms, 50 mid-size firms, and 486 small firms headquartered in the region. The South Region has 36,290 large-firm, 2,680 mid-size-firm, and 2,560 small-firm branch offices and 26 large firms, 33 mid-size firms, and 606 small firms headquartered in the region. The North Region has 28,663 large-firm, 1,899 mid-size-firm, and 2,392 small-firm branch offices and 39 large firms, 47 mid-size firms, and 726 small firms headquartered in the region. The New York Region has 4,022 large-firm, 463 mid-size-firm, and 1,590 small-firm branch offices and 40 large firms, 42 mid-size firms, and 936 small firms headquartered in the region.

²² The proposed amendments to Section 8.2(a) retain the current committee size parameters that a committee consist of no fewer than five and no more than 20 members, unless otherwise provided by resolution of the FINRA Regulation

Regional Committee Member Eligibility and Member Voting Standards

FINRA also proposes amending FINRA Regulation By-Laws Section 8.2(a) to require that each Regional Committee member be associated with a FINRA member eligible to vote in the district-level elections and work for a FINRA member headquartered within the district the member will be representing on the committee. For purposes of the provision, a firm is headquartered where it designates its main address on the firm's Form BD. A firm can only have one main address on its Form BD, and FINRA's member firms are assigned to one of the 11 districts outlined above based on the location of their main office.

The proposed eligibility requirement differs from the current requirement that District Committee members must be associated with a FINRA member firm eligible to vote in the district and work primarily from the member's principal office or a branch office that is located within the district where the member would serve on a District Committee.²³ FINRA believes that requiring committee member candidates to work for a firm that is headquartered in the district being represented rather than working from a firm's office in a particular district will result in committee member candidates that better reflect the type of firms within the respective regions, while ensuring that all districts have adequate representation within their respective Regional Committees. Committee member candidates from firms headquartered in a district also often bring regional and product expertise pertinent to that area.

Board and the provision that any reduction in the authorized number of such members shall not shorten any existing member's term. See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

²³ See FINRA Regulation By-Laws, Article VIII, Section 8.2(a)(1)-(2).

FINRA proposes retaining the requirement that a committee member be registered in the capacity of a branch manager or principal or denoted as a corporate officer of the FINRA member.²⁴ This requirement is designed to ensure that committee members have requisite experience for purposes of participating in meetings.²⁵

In addition, the proposed amendments retain district-level elections for Regional Committee members. As noted above, each district within its respective region will elect six Regional Committee members.²⁶ Each firm headquartered in the district shall be eligible to cast one vote for each position to be filled on a district's election ballot with the candidate receiving the largest number of votes cast by FINRA members eligible to vote in the district filling the vacant seat.²⁷ The proposed amendments do not retain the current requirement that member firms are only eligible to vote for committee members based on the applicable classification of the firm with which the committee member candidates are associated (e.g., only large firms are currently eligible to vote for one of the three large-firm committee member candidates).²⁸ Also, as noted previously, firms with a branch office located in the district will no longer be eligible to vote in the district-level elections (unless a firm with a branch office in a particular district is also headquartered in that district). However, the proposed change will expand the voting

²⁴ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a)(1).

²⁵ See Securities Exchange Act Release No. 64002 (March 2, 2011), 76 FR 12390 (March 7, 2011) (Notice of Filing of File No. SR-FINRA-2011-011).

²⁶ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

²⁷ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.9 and Section 8.17.

²⁸ See FINRA Regulation By-Laws, Article VIII, Section 8.9 and Section 8.17.

opportunities for eligible member firms headquartered within a district by providing them the opportunity to cast a vote for every open seat rather than requiring that each firm vote only for seats representing that firm's size classification (small, mid-size or large). In addition, as with the other proposed composition and eligibility changes, FINRA believes that the revised voting eligibility requirements and election process will reduce potential impediments that could hinder Regional Committee composition from reflecting the industry within that region. FINRA intends to monitor Regional Committee composition and will consider other changes, as appropriate, if the proposed changes do not achieve the intended goal. The proposed amendments retain the direct candidate self-nomination and vacancy appointment process currently used for District Committee elections.²⁹

As a transitional measure, and to ensure that the Regional Committees begin with a full complement of members, upon the proposed rule change becoming effective, FINRA would appoint all current District Committee members to serve on the Regional Committees. As a result, the Regional Committee members initially would include: (1) any current District Committee members from within each region who meet the proposed eligibility requirement that the member be associated with a firm headquartered in the district the member is representing; and (2) the six current District Committee members who do not meet the proposed eligibility requirement that they be associated with a member firm headquartered within the district they are representing. This transitional measure will allow all current committee members to serve their full terms, consistent

²⁹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8.

with the By-Laws,³⁰ and prevent them from being disenfranchised as a result of the proposed rule change.³¹ If the number of District Committee members is insufficient to fulfill all the Regional Committee seats, FINRA will appoint eligible individuals who are willing to serve on the Regional Committees.³²

The initial 12 or 18 members for each Regional Committee would be appointed for rolling terms, with four or six members appointed for three years, four or six members appointed for two years, and four or six members appointed for one year. As noted previously, the majority of the initial Regional Committee members will be current District Committee members. FINRA intends to appoint the District Committee members for terms concurrent with the expiration of their current terms. Thus, the District Committee members elected or appointed in 2017 for full terms will serve three-year terms, the District Committee members elected or appointed in 2016 for full terms will serve two-year terms, and the District Committee members elected or appointed in 2015 for full terms will serve one-year terms. The purpose of the rolling terms is to preserve the current practice described below of providing that one-third of the committees' positions will be available for election each year.

³⁰ See FINRA Regulation By-Laws, Article VIII, Section 8.2(a) (providing that no decrease in the authorized number of members of a District Committee shall shorten the term of office of any member).

³¹ Four of the committee members have one year remaining on their terms, while the other two committee members have two years remaining on their terms.

³² FINRA would appoint the initial Regional Committee members using its power to appoint qualified persons to fill Regional Committee vacancies where there is no designated candidate. See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8(b).

Regional Committee Term of Office and Meeting Location and Frequency

The proposed amendments retain for Regional Committee members the District Committees' three-year "full term" limit.³³ Also, consistent with the District Committees' term of office provisions, the proposed rule change does not impose a limit on the number of total terms that may be served, with the exception that a committee member may serve no more than two full terms consecutively.³⁴ The proposed rule change differs from the current provision that District Committee members may not serve two consecutive full terms. The proposed change is based, in part, on a Special Notice commenter's suggestion that FINRA eliminate the prohibition against District Committee members serving two consecutive full terms.³⁵ In addition, as noted above, the proposed amendments continue the current District Committee practice of staggering the three-year committee membership terms to provide that one-third of each Regional Committee's positions be available for election each year.

³³ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.3.

³⁴ See supra note 33. The proposed rule change would not prohibit someone appointed or elected to the committee to serve a partial term from serving two consecutive terms in addition to the partial term.

³⁵ Commonwealth. One Special Notice commenter suggested limiting District Committee members to one term. See Elmcore Securities, LLC. (noting also that she did not have enough input regarding the District Committees' activities to answer the Special Notice question asking about the District Committees' usefulness). Another commenter approved the current prohibition against serving two consecutive full terms. See Midwest Region Committees; see also Lara, May (indicating, without further detail, support for the current three-year term and term limits). Both commenters supported their suggestions as a means of providing more opportunities for interested individuals to become committee members and provide input. However, as noted above, there has been a general lack of interest in committee service. In addition, FINRA does not have any evidence supporting the supposition that interest in committee service will increase by imposing term limitations.

FINRA also proposes that the Regional Committees retain the current requirement to meet on a regional basis.³⁶ In addition, the Regional Committees will meet in-person two times a year, consistent with the general practice for District Committee meeting frequency.

Regional Committee Regulatory Role and Purpose

FINRA proposes that the Regional Committees assume the District Committees' regulatory roles outlined in the FINRA Regulation By-Laws to:

- serve as panelists in disciplinary proceedings in accordance with FINRA rules;
- consider and recommend policies and rule changes to the Board; and
- endeavor to educate FINRA members and others as to the objects, purposes and work of FINRA and FINRA Regulation.³⁷

In addition, FINRA intends to have Regional Committee members be responsible for communicating high-level information regarding meeting discussions to their constituents. This responsibility would be consistent with the role noted above that the Regional Committees educate FINRA members and others regarding FINRA and its work. The added responsibility also is consistent with a Special Notice commenter's suggestion that District Committees be used to greater effect by helping educate FINRA about district developments.³⁸

³⁶ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.5.

³⁷ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

³⁸ NSCP.

Regional Committee Administration and Procedures

The staff proposes retaining without significant changes (other than conforming changes to reflect the proposed elimination of firm-size classifications and the committee member candidate and member voting eligibility criteria that a firm have a principal or branch office within a district) the administrative and procedural provisions relating to meetings, vacancies, committee support, expenses and compensation, self-nomination, ballots, candidate solicitation, voter qualification list, extensions of time, and definitions.³⁹

Proposed Conforming Amendments

FINRA is proposing to amend Article I (Definitions) of the FINRA Regulation By-Laws to delete the term “District Committee” and add the term “Regional Committee”⁴⁰ and make conforming amendments to the FINRA Regulation By-Laws to replace District Committee references with Regional Committee references. FINRA also proposes amending the FINRA 9000 Rule Series (Code of Procedure) to replace, where appropriate, the term “District Committee” with “Regional Committee.” In addition, FINRA proposes amending FINRA Rule 9120 (Definitions) to clarify that the “District

³⁹ See generally proposed FINRA Regulation By-Laws, Article VIII, Sections 8.2(b)-(d), 8.4 (Filling of Vacancies on Regional Committees), 8.5 (Meetings of Regional Committees), 8.6 (Expenses of Regional Committees), 8.7 (Solicitation of Candidates and Secretary’s Notice to FINRA Members), 8.8 (Self-Nomination of Candidates and Vacancy Appointments), 8.10 (Administrative Support), 8.11 (Ballots), 8.12 (Vote Qualification List), 8.13 (Ballots Returned as Undelivered), 8.14 (General Procedures for Qualification and Accounting of Ballots), 8.15 (Ballots Set Aside), 8.16 (Invalid Ballots), 8.17 (Election Results), 8.18 (Extensions of Time and Additional Procedures), 8.19 (Definitions) and 9.1 (Compensation of Board, Council, and Committee Members).

⁴⁰ See proposed FINRA Regulation By-Laws, Article I(hh) (definition of “Regional Committee”).

Committee” definition is referring to the District Committees that will be replaced by the proposed Regional Committees, replace the term “Primary District Committee” with “Primary Regional Committee,” and add the term “Regional Committee.”⁴¹

FINRA also is proposing amendments to FINRA Rule 9231 (Appointment by the Chief Hearing Officer of Hearing Panel or Extended Hearing Panel or Replacement Hearing Officer) and FINRA Rule 9820 (Appointment of Hearing Officer and Hearing Panel) to clarify that former District Committee members and current and former Regional Committee members are eligible to serve as disciplinary hearing panelists.⁴² FINRA also is exploring options to enlarge the pool of panelists and better educate the Regional Committees about the critical function of serving on hearing panels in FINRA disciplinary proceedings.

As noted in Item 2 of this filing, FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing so FINRA can implement the proposed rule change immediately.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(4) of the Act,⁴³ which requires, among other things, that FINRA rules

⁴¹ See proposed amendments to FINRA Rule 9120(g) (adding the term “former” to the District Committee definition) and FINRA Rule 9120(y) (replacing the term “District” with “Regional” in the “Primary District Committee” definition) and proposed FINRA Rule 9120(z) (“Regional Committee”).

⁴² The proposed rule change also updates the cross-reference to FINRA Rule 9231 in FINRA Rule 9232(d) (Criteria for Appointment of a Panelist).

⁴³ 15 U.S.C. 78o-3(b)(4).

must be designed to assure a fair representation of its members in the selection of its directors and administration of its affairs, and with Section 15A(b)(6) of the Act,⁴⁴ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change will result in a more effective Regional Committee structure that aligns with how FINRA administratively groups and manages the current District Committees. The proposed rule change also will continue to provide members with the opportunity to elect and serve as committee members. More specifically, the proposed rule change will expand the voting opportunities for members headquartered within a district by providing them the opportunity to cast a vote for every open seat rather than requiring each member to vote only for seats representing that member's size classification (small, mid-size or large). However, pursuant to the proposed rule change, members with a branch office located in the district will no longer be eligible to vote in the district-level elections (unless a firm with a branch office in a particular district is also headquartered in that district). As further detailed above, the representation of Regional Committee members will more closely reflect the membership and industry configuration within the respective regions.

FINRA further believes that the proposed rule change is consistent with Section 15A(b)(8) of the Act,⁴⁵ which requires, among other things, that FINRA rules must be designed to provide a fair procedure for the disciplining of members and persons

⁴⁴ 15 U.S.C. 78o-3(b)(6).

⁴⁵ 15 U.S.C. 78o-3(b)(8).

associated with members. The proposed rule change maintains the necessary eligibility requirements to ensure that the pool of potential panelists is composed of qualified members. In addition, by reducing the number of committee members in the West and South Regions from 21 to 18 and in the Midwest, North, and New York Regions from 14 to 12, the proposed rule change only reduces by 12 the maximum number of eligible panelists who would be current committee members. FINRA is exploring options to enlarge the pool of panelists and better educate the Regional Committees about the critical function of serving on hearing panels in FINRA disciplinary proceedings.

4. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will not impose any direct costs or additional regulatory obligations on members. FINRA will continue its practice of covering committee meeting costs and expenses committee members incur by attending meetings in person.

The proposed rule change will reduce representation within each Regional Committee from seven seats to six seats per district. However, FINRA does not believe that it reduces overall opportunities for members to interact with FINRA staff or serve on committees. As noted in Special Notice, FINRA has over 30 advisory and ad hoc committees that include member representatives who routinely provide input and feedback on regulatory initiatives, proposed rule changes, and emerging regulatory issues. FINRA regularly engages with the industry through its public comment process on proposed rule changes. In addition, FINRA conducts member outreach through a

number of regularly scheduled events, including member meetings, round tables, district compliance meetings, and conferences.

5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received on the proposed rule change. As noted above, in March 2017, FINRA issued a Special Notice on engagement, which solicited comment regarding FINRA’s engagement programs, including the District Committees generally, and, in response, several commenters discussed the District Committees.⁴⁶

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3) of the Act⁴⁷ and paragraph (f)(6) of Rule 19b-4 thereunder,⁴⁸ in that the proposed rule change does not significantly affect the protection of investors or the public interest; does not impose any significant burden on competition; and does not become operative for 30 days after filing or such shorter time as the Commission may designate. The proposed rule change makes administrative and technical changes to the District Committee structure and governance by reorganizing the District Committees into Regional Committees that mirror the regions in which FINRA’s districts are administratively

⁴⁶ See supra notes 3 and 4.

⁴⁷ 15 U.S.C. 78s(b)(3).

⁴⁸ 17 CFR 240.19b-4(f)(6).

grouped. The proposed rule change will promote efficiency and sound administration by aligning the committee structure with FINRA's current practice of managing the District Committees as region-wide committees and ensure that FINRA's committees better reflect the industry and members within each region. This increased efficiency in committee administration will foster operational cohesiveness. In addition, the proposed rule change will continue to provide members with the opportunity to elect and serve as committee members, as well as expand the voting opportunities for members headquartered within a district by providing them the opportunity to cast a vote for every open seat rather than requiring each member vote only for seats representing that member's size classification (small, mid-size or large). Pursuant to the proposed rule change, however, members with a branch office located in the district will no longer be eligible to vote in the district-level elections (unless a firm with a branch office in a particular district is also headquartered in that district).

FINRA requests that the Commission waive the requirement that the rule change, by its terms, not become operative for 30 days after the date of the filing as set forth in Rule 19b-4(f)(6)(iii),⁴⁹ so FINRA can implement the proposed rule change immediately. FINRA believes that immediate operation of the proposed rule change is appropriate to allow the reorganized committees to begin effectively performing their regulatory functions without delay.

In accordance with Rule 19b-4(f)(6),⁵⁰ FINRA submitted written notice of its intent to file the proposed rule change, along with a brief description and text of the

⁴⁹ 17 CFR 240.19b-4(f)(6)(iii).

⁵⁰ 17 CFR 240.19b-4(f)(6).

proposed rule change, at least five business days prior to the date of filing, or such shorter time as the Commission may designate, as specified in Rule 19b-4(f)(6)(iii) under the Act.⁵¹

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 5. Text of the proposed rule change.

⁵¹ 17 CFR 240.19b-4(f)(6)(iii).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2018-021)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to District Committee Structure and Governance

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,³ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend the By-Laws of FINRA Regulation, Inc. (“FINRA Regulation By-Laws” or “By-Laws”), FINRA’s regulatory subsidiary, with regard to the District Committee structure and governance by, among other things, reorganizing the District Committees into Regional Committees that mirror the regions in which FINRA’s districts are administratively grouped and managed by FINRA and revising candidate and

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

member voting eligibility standards in a manner designed to result in committees that better reflect the industry and members within each region. The proposed rule change also makes conforming amendments to the FINRA Regulation By-Laws and FINRA rules to replace, where appropriate, District Committee references with Regional Committee references.⁴

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

⁴ The current FINRA rulebook consists of: (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from New York Stock Exchange LLC ("NYSE") ("Incorporated NYSE Rules") (together, the NASD Rules and Incorporated NYSE Rules are referred to as the "Transitional Rulebook"). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE ("Dual Members"). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process).

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

a. Background

In March 2017, FINRA issued a Special Notice⁵ on engagement soliciting comment regarding its engagement programs, including FINRA’s District Committees generally. Several commenters to the Special Notice provided observations and suggestions regarding the District Committees.⁶ Some commenters commended the District Committees,⁷ noting among other things, that they provide an opportunity to interact with FINRA senior staff,⁸ serve as an important means of receiving constructive feedback,⁹ and provide important service on disciplinary panels.¹⁰ One commenter also stated that the committee meetings offer FINRA the opportunity to obtain more field-based feedback from financial advisors that directly serve investors and that the financial

⁵ Special Notice – Engagement Initiative (March 21, 2017), available at <http://www.finra.org/industry/special-notice-032117>. The comment period closed on June 19, 2017. FINRA received 46 comment letters in response to the Special Notice.

⁶ Richard Wallace (“Wallace”), Wells Fargo Advisors (“Wells Fargo”), National Society of Compliance Professionals (“NSCP”), Commonwealth Financial Network (“Commonwealth”), Richard K. Bryant (“Bryant”), Midwest Region Committees, Elmcore Securities, LLC, Better Markets, Inc., Financial Services Institute (“FSI”) and Lara, May & Associates, LLC (“Lara, May”).

⁷ Wallace, Commonwealth, NSCP, Wells Fargo, and FSI.

⁸ Commonwealth.

⁹ FSI.

¹⁰ Wallace.

advisors benefit from open dialogue on timely, relevant topics.¹¹ Another commenter, however, questioned the committees' usefulness, referring to the committee meetings as "one-way information session[s]" about soon-to-be-introduced rules.¹² In a different vein, one commenter suggested increasing committee "diversity" by including non-industry representatives.¹³

In addition to the Special Notice feedback, FINRA has noted the membership's general lack of interest in District Committee service. The number of District Committee seat vacancies is the primary indicator of the membership's declining interest in District Committee service. For the past six years, there has been an average of 29 vacant District Committee seats per year. Of this 29-seat average, 13 (approximately 45%) have been contested seats (two or more candidates), eight (approximately 28%) have been seats with only one candidate, and eight (approximately 28%) have been seats without any candidates, thus requiring FINRA to find an eligible person to appoint to the seat.¹⁴

¹¹ Wells Fargo. The commenter also recommended adding two quarterly teleconference District Committee meetings in addition to the District Committees' bi-annual in-person meetings.

¹² Bryant.

¹³ Better Markets, Inc.

¹⁴ See FINRA Regulation By-Laws, Article VIII, Section 8.8(b) (in the event there is no candidate designated for a vacant seat, FINRA's Chief Executive Officer or his or her designee shall appoint a qualified individual to fill the vacancy for a full term). A number of reasons may contribute to individuals' failure to pursue a District Committee seat, such as a lack of awareness by some members of the opportunity and benefits of serving on a District Committee, a perceived lack of time to devote to the position or an individual's belief that he or she lacks sufficient industry experience to carry out a District Committee member's responsibilities. In addition, based on the Special Notice commenters' feedback outlined above, some people may not consider the District Committees to be useful or performing a meaningful role.

b. Proposed Rule Change

FINRA is proposing to amend the FINRA Regulation By-Laws to reorganize the District Committees as Regional Committees and to modify the committees' size, structure, and governance to respond to Special Notice feedback and address decreasing interest in District Committee service.

Reorganizing District Committees as Regional Committees

The By-Laws require the FINRA Regulation Board of Directors ("FINRA Regulation Board")¹⁵ to establish districts to assist with the administration of its affairs and provide that the FINRA Regulation Board may organize the districts into regions to promote efficiency and sound administration.¹⁶ The By-Laws further provide that the FINRA Regulation Board may make changes from time to time in the number or boundaries of the districts or regions as it deems necessary or appropriate.¹⁷ The FINRA Regulation Board has established 11 districts, overseen by FINRA District Offices, and has organized them into five regions:

- West (Districts 1 (San Francisco), 2 (Los Angeles) and 3 (Denver));
- Midwest (Districts 4 (Kansas City) and 8 (Chicago));
- South (Districts 5 (New Orleans), 6 (Dallas) and 7 (Atlanta and Boca Raton));
- North (Districts 9 (Philadelphia and New Jersey) and 11 (Boston)); and

¹⁵ FINRA Regulation, Inc. ("FINRA Regulation") is a subsidiary of FINRA that operates according to the Plan of Allocation and Delegation of Functions by FINRA to FINRA Regulation, Inc.

¹⁶ See FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts and Regions).

¹⁷ See supra note 16.

- New York (District 10 (Long Island and New York)).¹⁸

Pursuant to the By-Laws, each district elects a District Committee.¹⁹ FINRA currently manages the 11 District Committees as region-wide committees based on the administrative groupings outlined above, including having them meet bi-annually on a regional basis.²⁰

FINRA proposes to formally restructure the District Committees as Regional Committees. The proposed change will align the committee structure with FINRA's practice of managing the District Committees as region-wide committees.

Regional Committee Composition and Size

FINRA proposes amending Section 8.2(a) of the FINRA Regulation By-Laws to require that each Regional Committee have six elected members from each district within that committee's region. Regional Committees representing three districts (i.e., the South and West) will have 18 members, and Regional Committees representing two districts (i.e., Midwest, North, and New York) will have 12 members. Currently, District Committees are generally composed of seven to 14 elected members, with each committee reflecting a configuration of three small, one mid-size and three large firm representatives.²¹ The three-one-three composition is intended to align District

¹⁸ See Schedule A to FINRA Regulation By-Laws and <http://www.finra.org/industry/finra-district-offices>.

¹⁹ See FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

²⁰ See Securities Exchange Act Release No. 64363 (April 28, 2011), 76 FR 25397 (May 4, 2011) (Order Approving File No. SR-FINRA-2011-011) ("2011 Rule Filing Approval Order") (amending the By-Laws to, among other things, codify the practice of having the District Committees meet on a regional basis).

²¹ See FINRA Regulation By-Laws, Article VIII, Section 8.2(a); see also FINRA Regulation By-Laws, Article I, paragraph (jj) (definition of "Small Firm"),

Committee representation more closely with the industry representation on the FINRA Board.²² However, that configuration does not necessarily reflect the industry composition within the regions as each region differs regarding firm number, size and business lines. For instance, while the vast majority of branch offices within each region are large firm branch offices, most of the firms headquartered in each region are small firms.²³ In addition, when vacancies arise, the three-one-three District Committee configuration can make it more challenging to find eligible individuals within the districts who can be appointed to serve as committee members. Although large firms have many branches per district, FINRA staff has found it more difficult to find large-firm individuals to serve in districts where the firm is not headquartered. Conversely, FINRA

FINRA Regulation By-Laws, Article I, paragraph (aa) (definition of “Mid-Size Firm”), and FINRA Regulation By-Laws, Article I, paragraph (y) (definition of “Large Firm”).

²² See supra note 20 (2011 Rule Filing Approval Order amending the FINRA Regulation By-Laws to, among other things, adjust the size and composition of the District Committees to require three-sevenths of the District Committee members to be associated with Small Firms (up to 150 registered persons), one-seventh with Mid-Size Firms (151 to 499 registered persons), and three-sevenths with Large Firms (500 or more registered persons), thereby aligning District Committee representation more closely with the industry representation on the FINRA Board).

²³ Based on data from the Central Registration Depository (“Web CRD”[®]), the West Region has 31,075 large-firm, 2,198 mid-size-firm, and 2,292 small-firm branch offices and 24 large firms, 24 mid-size firms, and 592 small firms headquartered in the region. The Midwest Region has 34,661 large-firm, 3,071 mid-size-firm, and 2,269 small-firm branch offices and 48 large firms, 50 mid-size firms, and 486 small firms headquartered in the region. The South Region has 36,290 large-firm, 2,680 mid-size-firm, and 2,560 small-firm branch offices and 26 large firms, 33 mid-size firms, and 606 small firms headquartered in the region. The North Region has 28,663 large-firm, 1,899 mid-size-firm, and 2,392 small-firm branch offices and 39 large firms, 47 mid-size firms, and 726 small firms headquartered in the region. The New York Region has 4,022 large-firm, 463 mid-size-firm, and 1,590 small-firm branch offices and 40 large firms, 42 mid-size firms, and 936 small firms headquartered in the region.

staff has found that small-firm individuals are interested in committee service, but otherwise eligible individuals cannot be appointed if the prescribed small-firm committee positions are already filled. Thus, FINRA is not proposing to retain the three-one-three configuration.

The proposed amendments would reduce the number of committee members in the West and South regions from 21 to 18 and in the Midwest, North, and New York regions from 14 to 12. This size recalibration is intended to align the number of committee seats with the declining membership interest in committee service while still maintaining adequate district-level representation on the Regional Committees.²⁴

Regional Committee Member Eligibility and Member Voting Standards

FINRA also proposes amending FINRA Regulation By-Laws Section 8.2(a) to require that each Regional Committee member be associated with a FINRA member eligible to vote in the district-level elections and work for a FINRA member headquartered within the district the member will be representing on the committee. For purposes of the provision, a firm is headquartered where it designates its main address on the firm's Form BD. A firm can only have one main address on its Form BD, and FINRA's member firms are assigned to one of the 11 districts outlined above based on the location of their main office.

²⁴ The proposed amendments to Section 8.2(a) retain the current committee size parameters that a committee consist of no fewer than five and no more than 20 members, unless otherwise provided by resolution of the FINRA Regulation Board and the provision that any reduction in the authorized number of such members shall not shorten any existing member's term. See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

The proposed eligibility requirement differs from the current requirement that District Committee members must be associated with a FINRA member firm eligible to vote in the district and work primarily from the member's principal office or a branch office that is located within the district where the member would serve on a District Committee.²⁵ FINRA believes that requiring committee member candidates to work for a firm that is headquartered in the district being represented rather than working from a firm's office in a particular district will result in committee member candidates that better reflect the type of firms within the respective regions, while ensuring that all districts have adequate representation within their respective Regional Committees. Committee member candidates from firms headquartered in a district also often bring regional and product expertise pertinent to that area.

FINRA proposes retaining the requirement that a committee member be registered in the capacity of a branch manager or principal or denoted as a corporate officer of the FINRA member.²⁶ This requirement is designed to ensure that committee members have requisite experience for purposes of participating in meetings.²⁷

In addition, the proposed amendments retain district-level elections for Regional Committee members. As noted above, each district within its respective region will elect six Regional Committee members.²⁸ Each firm headquartered in the district shall be eligible to cast one vote for each position to be filled on a district's election ballot with

²⁵ See FINRA Regulation By-Laws, Article VIII, Section 8.2(a)(1)-(2).

²⁶ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a)(1).

²⁷ See Securities Exchange Act Release No. 64002 (March 2, 2011), 76 FR 12390 (March 7, 2011) (Notice of Filing of File No. SR-FINRA-2011-011).

²⁸ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

the candidate receiving the largest number of votes cast by FINRA members eligible to vote in the district filling the vacant seat.²⁹ The proposed amendments do not retain the current requirement that member firms are only eligible to vote for committee members based on the applicable classification of the firm with which the committee member candidates are associated (e.g., only large firms are currently eligible to vote for one of the three large-firm committee member candidates).³⁰ Also, as noted previously, firms with a branch office located in the district will no longer be eligible to vote in the district-level elections (unless a firm with a branch office in a particular district is also headquartered in that district). However, the proposed change will expand the voting opportunities for eligible member firms headquartered within a district by providing them the opportunity to cast a vote for every open seat rather than requiring that each firm vote only for seats representing that firm's size classification (small, mid-size or large). In addition, as with the other proposed composition and eligibility changes, FINRA believes that the revised voting eligibility requirements and election process will reduce potential impediments that could hinder Regional Committee composition from reflecting the industry within that region. FINRA intends to monitor Regional Committee composition and will consider other changes, as appropriate, if the proposed changes do not achieve the intended goal. The proposed amendments retain the direct candidate self-nomination and vacancy appointment process currently used for District Committee elections.³¹

²⁹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.9 and Section 8.17.

³⁰ See FINRA Regulation By-Laws, Article VIII, Section 8.9 and Section 8.17.

³¹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8.

As a transitional measure, and to ensure that the Regional Committees begin with a full complement of members, upon the proposed rule change becoming effective, FINRA would appoint all current District Committee members to serve on the Regional Committees. As a result, the Regional Committee members initially would include: (1) any current District Committee members from within each region who meet the proposed eligibility requirement that the member be associated with a firm headquartered in the district the member is representing; and (2) the six current District Committee members who do not meet the proposed eligibility requirement that they be associated with a member firm headquartered within the district they are representing. This transitional measure will allow all current committee members to serve their full terms, consistent with the By-Laws,³² and prevent them from being disenfranchised as a result of the proposed rule change.³³ If the number of District Committee members is insufficient to fulfill all the Regional Committee seats, FINRA will appoint eligible individuals who are willing to serve on the Regional Committees.³⁴

The initial 12 or 18 members for each Regional Committee would be appointed for rolling terms, with four or six members appointed for three years, four or six members appointed for two years, and four or six members appointed for one year. As noted

³² See FINRA Regulation By-Laws, Article VIII, Section 8.2(a) (providing that no decrease in the authorized number of members of a District Committee shall shorten the term of office of any member).

³³ Four of the committee members have one year remaining on their terms, while the other two committee members have two years remaining on their terms.

³⁴ FINRA would appoint the initial Regional Committee members using its power to appoint qualified persons to fill Regional Committee vacancies where there is no designated candidate. See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8(b).

previously, the majority of the initial Regional Committee members will be current District Committee members. FINRA intends to appoint the District Committee members for terms concurrent with the expiration of their current terms. Thus, the District Committee members elected or appointed in 2017 for full terms will serve three-year terms, the District Committee members elected or appointed in 2016 for full terms will serve two-year terms, and the District Committee members elected or appointed in 2015 for full terms will serve one-year terms. The purpose of the rolling terms is to preserve the current practice described below of providing that one-third of the committees' positions will be available for election each year.

Regional Committee Term of Office and Meeting Location and Frequency

The proposed amendments retain for Regional Committee members the District Committees' three-year "full term" limit.³⁵ Also, consistent with the District Committees' term of office provisions, the proposed rule change does not impose a limit on the number of total terms that may be served, with the exception that a committee member may serve no more than two full terms consecutively.³⁶ The proposed rule change differs from the current provision that District Committee members may not serve two consecutive full terms. The proposed change is based, in part, on a Special Notice commenter's suggestion that FINRA eliminate the prohibition against District Committee

³⁵ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.3.

³⁶ See supra note 35. The proposed rule change would not prohibit someone appointed or elected to the committee to serve a partial term from serving two consecutive terms in addition to the partial term.

members serving two consecutive full terms.³⁷ In addition, as noted above, the proposed amendments continue the current District Committee practice of staggering the three-year committee membership terms to provide that one-third of each Regional Committee's positions be available for election each year.

FINRA also proposes that the Regional Committees retain the current requirement to meet on a regional basis.³⁸ In addition, the Regional Committees will meet in-person two times a year, consistent with the general practice for District Committee meeting frequency.

Regional Committee Regulatory Role and Purpose

FINRA proposes that the Regional Committees assume the District Committees' regulatory roles outlined in the FINRA Regulation By-Laws to:

- serve as panelists in disciplinary proceedings in accordance with FINRA rules;
- consider and recommend policies and rule changes to the Board; and

³⁷ Commonwealth. One Special Notice commenter suggested limiting District Committee members to one term. See Elmcore Securities, LLC. (noting also that she did not have enough input regarding the District Committees' activities to answer the Special Notice question asking about the District Committees' usefulness). Another commenter approved the current prohibition against serving two consecutive full terms. See Midwest Region Committees; see also Lara, May (indicating, without further detail, support for the current three-year term and term limits). Both commenters supported their suggestions as a means of providing more opportunities for interested individuals to become committee members and provide input. However, as noted above, there has been a general lack of interest in committee service. In addition, FINRA does not have any evidence supporting the supposition that interest in committee service will increase by imposing term limitations.

³⁸ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.5.

- endeavor to educate FINRA members and others as to the objects, purposes and work of FINRA and FINRA Regulation.³⁹

In addition, FINRA intends to have Regional Committee members be responsible for communicating high-level information regarding meeting discussions to their constituents. This responsibility would be consistent with the role noted above that the Regional Committees educate FINRA members and others regarding FINRA and its work. The added responsibility also is consistent with a Special Notice commenter's suggestion that District Committees be used to greater effect by helping educate FINRA about district developments.⁴⁰

Regional Committee Administration and Procedures

The staff proposes retaining without significant changes (other than conforming changes to reflect the proposed elimination of firm-size classifications and the committee member candidate and member voting eligibility criteria that a firm have a principal or branch office within a district) the administrative and procedural provisions relating to meetings, vacancies, committee support, expenses and compensation, self-nomination, ballots, candidate solicitation, voter qualification list, extensions of time, and definitions.⁴¹

³⁹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

⁴⁰ NSCP.

⁴¹ See generally proposed FINRA Regulation By-Laws, Article VIII, Sections 8.2(b)-(d), 8.4 (Filling of Vacancies on Regional Committees), 8.5 (Meetings of Regional Committees), 8.6 (Expenses of Regional Committees), 8.7 (Solicitation of Candidates and Secretary's Notice to FINRA Members), 8.8 (Self-Nomination of Candidates and Vacancy Appointments), 8.10 (Administrative Support), 8.11 (Ballots), 8.12 (Vote Qualification List), 8.13 (Ballots Returned as Undelivered), 8.14 (General Procedures for Qualification and Accounting of Ballots), 8.15 (Ballots Set Aside), 8.16 (Invalid Ballots), 8.17 (Election Results), 8.18

Proposed Conforming Amendments

FINRA is proposing to amend Article I (Definitions) of the FINRA Regulation By-Laws to delete the term “District Committee” and add the term “Regional Committee”⁴² and make conforming amendments to the FINRA Regulation By-Laws to replace District Committee references with Regional Committee references. FINRA also proposes amending the FINRA 9000 Rule Series (Code of Procedure) to replace, where appropriate, the term “District Committee” with “Regional Committee.” In addition, FINRA proposes amending FINRA Rule 9120 (Definitions) to clarify that the “District Committee” definition is referring to the District Committees that will be replaced by the proposed Regional Committees, replace the term “Primary District Committee” with “Primary Regional Committee,” and add the term “Regional Committee.”⁴³

FINRA also is proposing amendments to FINRA Rule 9231 (Appointment by the Chief Hearing Officer of Hearing Panel or Extended Hearing Panel or Replacement Hearing Officer) and FINRA Rule 9820 (Appointment of Hearing Officer and Hearing Panel) to clarify that former District Committee members and current and former Regional Committee members are eligible to serve as disciplinary hearing panelists.⁴⁴

(Extensions of Time and Additional Procedures), 8.19 (Definitions) and 9.1 (Compensation of Board, Council, and Committee Members).

⁴² See proposed FINRA Regulation By-Laws, Article I(hh) (definition of “Regional Committee”).

⁴³ See proposed amendments to FINRA Rule 9120(g) (adding the term “former” to the District Committee definition) and FINRA Rule 9120(y) (replacing the term “District” with “Regional” in the “Primary District Committee” definition) and proposed FINRA Rule 9120(z) (“Regional Committee”).

⁴⁴ The proposed rule change also updates the cross-reference to FINRA Rule 9231 in FINRA Rule 9232(d) (Criteria for Appointment of a Panelist).

FINRA also is exploring options to enlarge the pool of panelists and better educate the Regional Committees about the critical function of serving on hearing panels in FINRA disciplinary proceedings.

FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing so FINRA can implement the proposed rule change immediately.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(4) of the Act,⁴⁵ which requires, among other things, that FINRA rules must be designed to assure a fair representation of its members in the selection of its directors and administration of its affairs, and with Section 15A(b)(6) of the Act,⁴⁶ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change will result in a more effective Regional Committee structure that aligns with how FINRA administratively groups and manages the current District Committees. The proposed rule change also will continue to provide members with the opportunity to elect and serve as committee members. More specifically, the proposed rule change will expand the voting opportunities for members headquartered within a district by providing them the opportunity to cast a vote for every open seat rather than

⁴⁵ 15 U.S.C. 78o-3(b)(4).

⁴⁶ 15 U.S.C. 78o-3(b)(6).

requiring each member to vote only for seats representing that member's size classification (small, mid-size or large). However, pursuant to the proposed rule change, members with a branch office located in the district will no longer be eligible to vote in the district-level elections (unless a firm with a branch office in a particular district is also headquartered in that district). As further detailed above, the representation of Regional Committee members will more closely reflect the membership and industry configuration within the respective regions.

FINRA further believes that the proposed rule change is consistent with Section 15A(b)(8) of the Act,⁴⁷ which requires, among other things, that FINRA rules must be designed to provide a fair procedure for the disciplining of members and persons associated with members. The proposed rule change maintains the necessary eligibility requirements to ensure that the pool of potential panelists is composed of qualified members. In addition, by reducing the number of committee members in the West and South Regions from 21 to 18 and in the Midwest, North, and New York Regions from 14 to 12, the proposed rule change only reduces by 12 the maximum number of eligible panelists who would be current committee members. FINRA is exploring options to enlarge the pool of panelists and better educate the Regional Committees about the critical function of serving on hearing panels in FINRA disciplinary proceedings.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will not impose any direct costs or additional regulatory

⁴⁷ 15 U.S.C. 78o-3(b)(8).

obligations on members. FINRA will continue its practice of covering committee meeting costs and expenses committee members incur by attending meetings in person.

The proposed rule change will reduce representation within each Regional Committee from seven seats to six seats per district. However, FINRA does not believe that it reduces overall opportunities for members to interact with FINRA staff or serve on committees. As noted in Special Notice, FINRA has over 30 advisory and ad hoc committees that include member representatives who routinely provide input and feedback on regulatory initiatives, proposed rule changes, and emerging regulatory issues. FINRA regularly engages with the industry through its public comment process on proposed rule changes. In addition, FINRA conducts member outreach through a number of regularly scheduled events, including member meetings, round tables, district compliance meetings, and conferences.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received on the proposed rule change. As noted above, in March 2017, FINRA issued a Special Notice on engagement, which solicited comment regarding FINRA's engagement programs, including the District Committees generally, and, in response, several commenters discussed the District Committees.⁴⁸

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on

⁴⁸ See supra notes 5 and 6.

competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act⁴⁹ and Rule 19b-4(f)(6) thereunder.⁵⁰

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2018-021 on the subject line.

⁴⁹ 15 U.S.C. 78s(b)(3)(A).

⁵⁰ 17 CFR 240.19b-4(f)(6).

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2018-021. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2018-021 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵¹

Robert W. Errett
Deputy Secretary

⁵¹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Exhibit 5 shows the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

BY-LAWS OF FINRA REGULATION, INC.

ARTICLE I DEFINITIONS

When used in these By-Laws, unless the context otherwise requires, the term:

(a) through (k) No Change.

[(l) "District Committee" means a District Committee elected pursuant to Article VIII of these By-Laws;]

(m) through (hh) are redesignated as (l) through (gg).

(hh) "Regional Committee" means a Regional Committee elected pursuant to Article VIII of these By-Laws;

(ii) through (kk) No Change.

* * * * *

ARTICLE VIII

[~~DISTRICT~~]REGIONAL COMMITTEES

Establishment of Districts and Regions

Sec. 8.1 No Change.

Composition of [~~District~~]Regional Committees

Sec. 8.2 (a) A district within its respective region, as established under Section 8.1, shall elect no fewer than six Regional Committee members to serve on the Regional Committee for its respective region, unless otherwise provided by resolution of the Board. A Regional Committee shall consist of no fewer than five and no more than 20

members, unless otherwise provided by resolution of the Board. Subject to the limitation set forth in the immediately preceding sentence, the authorized number of members of a Regional Committee shall be determined from time to time by the Board; provided, however, that no decrease in the authorized number of members of a Regional Committee shall shorten the term of office of any member thereof. Each Regional Committee member of a particular district shall: (1) be associated with a FINRA member eligible to vote in the district-level elections and registered in the capacity of a branch manager or principal or denoted as a corporate officer of the FINRA member; and (2) work for a firm headquartered within the district the Regional Committee member is representing. For purposes of this provision, a FINRA member is headquartered where it designates its main address on the member's Form BD. Members of the Regional Committees shall serve as panelists in disciplinary proceedings in accordance with the Rules of the Corporation. The Regional Committees shall consider and recommend policies and rule changes to the Board. The Regional Committees shall endeavor to educate FINRA members and other brokers and dealers in their respective districts as to the objects, purposes, and work of FINRA and FINRA Regulation in order to foster FINRA members' interest and cooperation. [A district created under Section 8.1 shall elect a District Committee pursuant to this Article. A District Committee shall consist of no fewer than five and no more than 20 members, unless otherwise provided by resolution of the Board. Subject to the limitation set forth in the immediately preceding sentence, the authorized number of members of a District Committee shall be determined from time to time by the Board; provided, however, that no decrease in the authorized number of members of a District Committee shall shorten the term of office of any member thereof.

Each District Committee member shall: (1) be associated with a FINRA member eligible to vote in the district for District Committee elections and registered in the capacity of a branch manager or principal or denoted as a corporate officer of the FINRA member; (2) work primarily from such FINRA member's principal office or a branch office that is located within the district where the member serves on a District Committee; and (3) represent and be directly elected by the applicable classification of FINRA members based on the size of the firm with which he or she is associated: Small Firm, Mid-Size Firm, or Large Firm as defined in these By-Laws. The Board shall determine the composition of District Committees based on firm size classifications (Small Firm, Mid-Size Firm, or Large Firm), taking into account the composition of the membership and the Board. Members of the District Committees shall serve as panelists in disciplinary proceedings in accordance with the Rules of the Corporation. The District Committees shall consider and recommend policies and rule changes to the Board. The District Committees shall endeavor to educate FINRA members and other brokers and dealers in their respective districts as to the objects, purposes, and work of FINRA and FINRA Regulation in order to foster FINRA members' interest and cooperation.]

(b) A member of a [District]Regional Committee may resign at any time upon giving Notice to the District Director. Any such resignation shall take effect upon receipt of such Notice or at any later time specified therein, provided that notice of resignation at a later date may be made immediately effective at the discretion of the Chief Executive Officer or his or her designee. The acceptance of such resignation shall not be necessary to make such resignation effective.

(c) In the event of the refusal, failure, neglect, or inability of a member of a [District]Regional Committee to discharge his or her duties, or for any cause affecting the best interests of FINRA Regulation, the sufficiency of which shall be decided by the [District]Regional Committee, the [District]Regional Committee may remove the member by the affirmative vote of two-thirds of the members of the [District]Regional Committee then in office and declare the [District]Regional Committee member's position vacant. The [District]Regional Committee shall notify the [District]Regional Committee member of his or her removal within seven days after the vote.

A [District]Regional Committee member who is removed may submit a written appeal of the removal to the Board within 30 days after the date he or she is notified of the removal. The Board may affirm, reverse, or modify the determination of the [District]Regional Committee. A vote of a majority of the Directors then in office shall be required to reverse or modify the action of the [District]Regional Committee.

(d) In the event of a vacancy in a [District]Regional Committee resulting from death, resignation, removal, or other cause, the Chief Executive Officer or his or her designee shall determine whether such vacancy shall be filled prior to the next regularly scheduled election of [District]Regional Committee members. In the event the Chief Executive Officer or his or her designee determines that a vacancy on a [District]Regional Committee should be filled, the vacancy shall be filled pursuant to Section 8.4.

Term of Office of [District]Regional Committee Members

Sec. 8.3 Each regularly elected member of a [District]Regional Committee shall hold office for a "full term" which is the later of three years or until a successor is elected

and qualified. Notwithstanding the term of office for a regularly elected [District]Regional Committee member, such member's term shall terminate sooner upon the member's death, resignation, or removal. There is no limit on the number of terms that may be served by a member of a [District]Regional Committee, except that a [District]Regional Committee member may [not] serve no more than two full terms consecutively.

Filling of Vacancies on [District]Regional Committees

Sec. 8.4 In the event of a vacancy on a [District]Regional Committee prior to the expiration of the [District]Regional Committee member's term of office, and where the Chief Executive Officer or his or her designee determines, pursuant to Section 8.2(d), that such vacancy should be filled, or in the event of a newly created membership on a [District]Regional Committee by virtue of an increase in the authorized number of members thereof, the [District]Regional Committee shall appoint by majority vote an individual who meets the qualification requirements of Section 8.2(a) to fill a vacancy [, including meeting the requirement of representing the applicable firm size classification (Small Firm, Mid-Size Firm, or Large Firm) to fill the vacancy or newly created membership. If the District Committee is unable to identify or appoint an individual meeting the requirement of representing the applicable firm size classification, it may appoint for that vacancy an individual who otherwise meets the qualification requirements of Section 8.2(a) associated with a firm having another firm size classification]. The appointment by the [District]Regional Committee shall be effective until the next regularly scheduled election, and until such [District]Regional Committee member's successor is elected and qualified. Following the next regularly

scheduled election, in the event of a vacancy, the newly elected [District]Regional Committee member shall serve only the duration of the departed [District]Regional Committee member's term, and in the event of a newly created membership, the newly elected [District]Regional Committee member shall serve only the duration of the term for such class of membership.

Meetings of [District]Regional Committees

Sec. 8.5 Meetings of a [District]Regional Committee shall be held [jointly with the other District Committees] in its region, as identified in Schedule A to these By-Laws, at such times and places, upon such notice, and in accordance with such procedures as the Chief Executive Officer or his or her designee in his or her discretion may determine. A quorum of a [District]Regional Committee shall consist of a majority of its members, and any action taken by a majority present at any meeting at which a quorum is present, except as otherwise provided in these By-Laws, shall constitute the action of the Committee. Any or all members of a [District]Regional Committee may participate in any such meeting by means of conference telephone or other communications equipment by means of which all participants can communicate with each other, and such participation shall constitute presence in person at the meeting. Action by a [District]Regional Committee may be taken by consent in writing or by electronic transmission in lieu of a meeting, in which case any action taken by a majority of the Committee shall constitute the action of the Committee.

Expenses of [District]Regional Committees

Sec. 8.6 Funds to meet the regular expenses of each [District]Regional Committee shall be provided by the Board, and all such expenses shall be subject to the approval of the Board.

Solicitation of Candidates and Secretary's Notice to FINRA Members

Sec. 8.7 The Secretary of FINRA Regulation shall give a Notice of the upcoming election to FINRA members and the Executive Representatives of FINRA members describing the election procedures and stating that FINRA members may submit names of [District]Regional Committee member candidates for their districts for consideration to the Secretary of FINRA Regulation.

Self-Nomination of Candidates and Vacancy Appointments

Sec. 8.8 (a) An individual who meets the qualification requirements of Section 8.2(a) wishing to be considered for election to the [District]Regional Committee shall deliver a written Notice to the Secretary of FINRA Regulation within 30 calendar days after the Secretary of FINRA Regulation gives the Notice of the upcoming elections pursuant to Section 8.7. The Secretary of FINRA Regulation shall make a written record of the time and date of the receipt of each Notice from a qualified individual, and designate that individual as a candidate.

(b) In the event that no candidate is designated for a particular [District]Regional Committee vacancy, the Chief Executive Officer or his or her designee shall appoint an individual who meets the qualification requirements of Section 8.2(a)[, including representing the applicable firm size classification (Small Firm, Mid-Size Firm or Large Firm),] to fill that vacancy for a full term. [If the Chief Executive Office or his or her

designee is unable to identify or appoint an individual meeting the requirement of representing the applicable firm size classification, he or she may appoint for that vacancy an individual who otherwise meets the qualification requirements of Section 8.2(a) associated with a firm having another firm size classification.]

FINRA Members Eligible to Vote

Sec. 8.9 A FINRA member that is headquartered in the district shall be eligible to cast one vote through the FINRA member's Executive Representative for each position to be filled in the election representing that district on the Regional Committee. For purposes of this provision, a FINRA member is headquartered where it designates its main address on the member's Form BD.

[A FINRA member that has its principal office or one or more registered branch offices in the district shall be eligible to cast one vote through the FINRA member's Executive Representative for each position representing its firm size classification (Small Firm, Mid-Size Firm, or Large Firm) on the District Committee to be filled in the election.]

Administrative Support

Sec. 8.10 The Secretary of FINRA Regulation shall provide administrative support to all candidates, according to procedures published by the Secretary. Any candidate may also send communications to FINRA members eligible to vote in the district [based on the firm size classification (Small Firm, Mid-Size Firm, or Large Firm)] at the candidate's own expense, provided that such communications clearly state that they represent the opinions of the candidate. Except as provided in this Article,

FINRA Regulation, the Board, any committee, and FINRA Regulation staff shall not provide any other administrative support to a candidate in the election.

Ballots

Sec. 8.11 No Change.

Vote Qualification List

Sec. 8.12 Eligibility to vote in a district-level election shall be based on FINRA's membership records as of a date selected by the Secretary of FINRA Regulation that is not more than 30 days before the date of mailing of the ballot. The Secretary of FINRA Regulation shall prepare a list of FINRA members[in each firm size classification (Small Firm, Mid-Size Firm, or Large Firm)] eligible to vote in the district, their mailing addresses, and their Executive Representatives, which shall be used for vote qualification purposes, and shall provide the applicable list to candidates upon request.

Ballots Returned As Undelivered

Sec. 8.13 No Change.

General Procedures for Qualification and Accounting of Ballots

Sec. 8.14 After the close of the voting period, the Independent Agent shall tabulate the ballots and notify the Secretary of FINRA Regulation of the voting results for each [District]Regional Committee position subject to election within 14 calendar days after the return date specified on the ballot pursuant to Section 8.11.

Ballots Set Aside

Sec. 8.15 No Change.

Invalid Ballots

Sec. 8.16 No Change.

Election Results

Sec. 8.17 The Independent Agent shall count the votes received for each candidate in a district. The district-level candidates for the office of member of the [District]Regional Committee receiving the largest number of votes cast by FINRA members eligible to vote in the district for the office shall be declared elected such that the number [and firm size classification (Small Firm, Mid-Size Firm, or Large Firm)]of candidates declared elected corresponds to the number [and firm size classification]of positions on the [District]Regional Committee subject to the district-level election. In the event of a tie, there shall be a run-off election. The Secretary of FINRA Regulation shall notify the Board of the election results. The notification shall state the number of votes received by each candidate [in each firm size classification] and the number of ballots set aside.

Extensions of Time and Additional Procedures

Sec. 8.18 No Change.

Definitions

Sec. 8.19 No Change.

ARTICLE IX

COMPENSATION

Compensation of Board, Council, and Committee Members

Sec. 9.1 The Board may provide for reasonable compensation of the Chair of the Board, the Directors, National Adjudicatory Council members, and the members of any committee of the Board or any [District]Regional Committee. The Board may also

provide for reimbursement of reasonable expenses incurred by such persons in connection with the business of FINRA Regulation.

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9000. CODE OF PROCEDURE

9100. APPLICATION AND PURPOSE

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9120. Definitions

(a) through (f) No Change.

(g) "District Committee"

The term "District Committee" means a former district committee elected pursuant to the FINRA Regulation By-Laws or a resolution of the FINRA Regulation Board.

(h) through (x) No Change.

(y) "Primary [District]Regional Committee"

The term "Primary [District]Regional Committee" means, in a disciplinary proceeding under the Rule 9200 Series, the [District]Regional Committee designated by the Chief Hearing Officer pursuant to Rule 9232 to provide one or more of the Panelists to a Hearing Panel or, if applicable, to an Extended Hearing Panel, for such disciplinary proceeding.

(z) "Regional Committee"

The term "Regional Committee" means a regional committee elected pursuant to the FINRA Regulation By-Laws or a resolution of the FINRA Regulation Board.

(z) through (cc) renumbered as (aa) through (dd).

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9200. DISCIPLINARY PROCEEDINGS

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9230. Appointment of Hearing Panel, Extended Hearing Panel

9231. Appointment by the Chief Hearing Officer of Hearing Panel or Extended Hearing Panel or Replacement Hearing Officer

(a) No Change.

(b) Hearing Panel

The Hearing Panel shall be composed of a Hearing Officer and two Panelists, except as provided in paragraph (e) and in Rule 9234(a), (c), (d), or (e). The Hearing Officer shall serve as the chair of the Hearing Panel. Each Panelist shall be associated with a member of FINRA or retired therefrom.

(1) Except as provided in subparagraph (2) below, the Chief Hearing Officer shall select as a Panelist a person who:

(A) [currently serves or] previously served on a District Committee;

(B) currently serves or previously served on a Regional Committee;

(B) through (E) renumbered as (C) through (F).

(2) No Change.

(c) through (e) No Change.

9232. Criteria for Selection of Panelists and Replacement Panelists

(a) Chief Hearing Officer Selection Alternatives

Following a determination of whether a Hearing Panel or an Extended Hearing Panel should be appointed, the Chief Hearing Officer shall determine:

(1) which [~~District~~]Regional Committee shall be the Primary [~~District~~]Regional Committee from which Panelists may be selected; and

(2) whether one of the Panelists may be selected from the Market Regulation Committee.

(b) No Change.

(c) Criteria for Designation of Primary [~~District~~]Regional Committee

The Chief Hearing Officer shall designate a [~~District~~] Regional Committee as the Primary [~~District~~] Regional Committee based upon relevant facts and circumstances of the case, including but not limited to:

(1) the location of a Respondent's principal office if the Respondent is or was a member firm;

(2) the location of a Respondent's office at the time of the alleged misconduct if the Respondent is or was an associated person;

(3) the location of the office of a member or an associated person, or a former member or associated person, where the alleged misconduct occurred;

(4) the location of witnesses at the time of the filing of the complaint, especially the location of witnesses who are or were customers of a Respondent;

(5) the location, at the time of the alleged misconduct, of the main, branch, or other office in which supervisory personnel, who are or were responsible for the supervision of a Respondent, were employed; and

(6) the location, at the time of the alleged misconduct, of the main, branch, or other office in which supervisory personnel, who are or were responsible for the supervision of the office, division, function, or segment of the member where the alleged misconduct occurred, were employed.

(d) Criteria for Appointment of a Panelist

After the Chief Hearing Officer designates the Primary [District]Regional Committee, the Chief Hearing Officer shall select Panelists from the current members of the Primary [District]Regional Committee, the other categories of persons eligible to serve as Panelists as set forth in Rule 9231(b)(1)(A) through (E[E]) or, if applicable, in Rule 9231(c), who are located in the same geographic area as the Primary [District]Regional Committee, and, if applicable, from the current or former members of the Market Regulation Committee, based upon the following criteria:

- (1) expertise;
- (2) the absence of any conflict of interest or bias, and any appearance thereof;
- (3) availability; and,
- (4) the frequency with which a person has served as a Panelist on a Hearing Panel or an Extended Hearing Panel during the past two years, favoring the selection of a person as a Panelist who has never served or served infrequently as a Panelist during the period.

(e) Appointment of Panelists from Other than Primary [District]Regional Committee

Designation of the Primary [District]Regional Committee does not preclude the Chief Hearing Officer from selecting one or more Panelists from other categories of eligible Panelists if the Chief Hearing Officer determines that one or more persons from other categories of eligible Panelists more clearly meet the criteria of paragraph (d)(1) through (4) and the public interest or the administration of FINRA's regulatory and enforcement program would be enhanced by the selection of such Panelists.

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9800. TEMPORARY AND PERMANENT CEASE AND DESIST ORDERS

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9820. Appointment of Hearing Officer and Hearing Panel

(a) As soon as practicable after the Department of Enforcement or the Department of Market Regulation files a copy of the notice initiating a TCDO Proceeding or a PCDO Proceeding with the Office of Hearing Officers, the Chief Hearing Officer shall assign a Hearing Officer to preside over the proceeding. The Chief Hearing Officer shall appoint two Panelists to serve on a Hearing Panel with the Hearing Officer. Each Panelist shall be associated with a member of FINRA or retired therefrom. The Chief Hearing Officer shall select as a Panelist a person who:

- (1) [currently serves or] previously served on a District Committee;
- (2) currently serves or previously served on a Regional Committee;
- (2) through (5) renumbered as (3) through (6).

(b) No Change.

* * * * *