Proposed Rule 4111 (Restricted Firm Obligations)

Annual Preliminary Criteria for Identification Calculation by FINRA’s Department of Member Supervision (Department)

The numeric thresholds for the criteria are based on (i) several categories of events and conditions of broker and firm disclosures; (ii) firm sizes; and (iii) lookback periods.

ALL MEMBER FIRMS

Firm Does Not Meet Preliminary Criteria for Identification

- No Further Review

Firm Meets Preliminary Criteria for Identification

- Initial Evaluation by Department
  - The staff will review the events and the risk profile of the firm to determine if the firm should not be subject to further review under the rule.

  - Yes Further Review Required
  - Option to Reduce Staff
    - A firm that meets the preliminary criteria for the first time has a one-time option to reduce staffing levels to below numeric thresholds
    - Does Not Undertake Staff Reduction
      - Maximum Restricted Deposit Requirement
        - The Department will tailor the firm’s maximum Restricted Deposit Requirement based on the firm’s size, operations and financial conditions.

  - Candidate Consultation Process
    - The Department will conduct a consultation with the firm to determine if the firm should be designated as a Restricted Firm (RF)
    - Presumption that the firm will be designated as a RF and subject to the maximum restricted deposit amount, the firm can provide information to overcome the presumption

  - Department Decision
    - Department provides Notice of Determination to Firm

- The Firm overcomes presumption and is NOT designated as an RF
- The Firm does not overcome presumption and is subject to maximum restricted deposit requirement and obligations
- The Firm does not overcome presumption that it is an RF but demonstrates financial hardship and is subject to no or a lesser restricted deposit requirement and obligations

- The Firm does not overcome presumption and is NOT designated as an RF

- Firm Accepts Designation as RF and related obligations

- Firm Accepts Designation as RF and related obligations

Appeals Process

Proposed New Expedited Proceeding Rule

Firm Appeals

- Accepts Firm Accepts Designation as RF and related obligations

- Appeals

Firm Appeals under proposed new Expedited Proceedings Rule—no stay of obligations, but maintain % of deposit

- Appeals

The Firm does not overcome presumption that it is an RF but demonstrates financial hardship and is subject to no or a lesser restricted deposit requirement and obligations

- Appeals

The Firm does not overcome presumption and is subject to maximum restricted deposit requirement and obligations

- Appeals

The Firm does not overcome presumption and is NOT designated as an RF

- Appeals

The Firm overcomes presumption and is NOT designated as an RF

- No Obligations

- Undertakes Staff Reduction