

## FINRA Requests Comment on the Effectiveness and Efficiency of Its Reporting Requirements Rule

Comment Period Expires: March 9, 2020

### Summary

FINRA is conducting a retrospective review of Rule 4530 (Reporting Requirements) to assess its effectiveness and efficiency. This *Notice* outlines the general retrospective rule review process and seeks responses to several questions related to firms' experiences with this specific rule.

Questions concerning this *Notice* should be directed to:

- ▶ Michael Garawski, Associate General Counsel, Office of General Counsel (OGC), at (202) 728-8835;
- ▶ An He, Principal Research Analyst, Office of the Chief Economist (OCE), at (202) 728-8287; or
- ▶ Meghan Burns, Associate Principal Analyst, OCE, at (202) 728-8062.

### Action Requested

FINRA encourages all interested parties to comment. Comments must be received by March 9, 2020.

Comments must be submitted through one of the following methods:

- ▶ Emailing comments to [pubcom@finra.org](mailto:pubcom@finra.org); or
- ▶ Mailing comments in hard copy to:  
Jennifer Piorko Mitchell  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

January 9, 2020

### Notice Type

- ▶ Request for Comment

### Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Registration
- ▶ Regulatory Reporting
- ▶ Senior Management
- ▶ Systems

### Key Topics

- ▶ Customer Complaints
- ▶ Disclosure Events
- ▶ Filing Requirements
- ▶ Operational Rules
- ▶ Reporting Requirements

### Referenced Rules & Notices

- ▶ FINRA Rule 4530
- ▶ Regulatory Notice 11-06
- ▶ Regulatory Notice 13-08

To help FINRA process comments more efficiently, persons should use only one method to comment.

**Important Notes:** All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.<sup>1</sup>

## Background & Discussion

FINRA believes that it is appropriate, after a reasonable period of time, to look back at its significant rulemaking to determine whether a FINRA rule or rule set is meeting its intended investor-protection objectives by reasonably efficient means.<sup>2</sup> FINRA further believes that a retrospective review should include an assessment not only of the substance and application of a rule or rule set, but also FINRA's processes to administer the rules. FINRA conducts retrospective rule reviews on an ongoing basis to ensure that its rules remain relevant and appropriately designed to achieve their objectives, particularly in light of regulatory, technological or other environmental changes.

In conducting the review of Rule 4530, FINRA staff will follow a similar process to previous retrospective rule reviews. In general, the review process consists of an assessment phase and an action phase. During the assessment phase, FINRA will evaluate the efficacy and efficiency of the rule or rule set as currently implemented, including FINRA's internal administrative processes. FINRA will seek input from affected parties and experts, including its advisory committees, subject-matter experts inside and outside of the organization, and other stakeholders, including member firms, investors, interested groups and the public. FINRA staff will assess issues including the existence of any duplicative, inconsistent or ineffective regulatory obligations; whether market or other conditions have changed to suggest there are ways to improve the efficiency or effectiveness of a regulatory obligation without loss of investor protections; and potential gaps in the regulatory framework.

Upon completion of this assessment, FINRA staff will consider appropriate next steps, which may include some or all of the following: modifications to the rule, updated or additional guidance, administrative changes or technology improvements, or additional research or information gathering.

The action phase will then follow. To the extent action involves modification of rules, FINRA will separately engage in its usual rulemaking process to propose amendments to the rules based on the findings. This process will include input from FINRA's advisory committees and an opportunity for comment on specific proposed revisions in a *Regulatory Notice* or rule filing with the SEC, or both.

## Request for Comment

Rule 4530 requires member firms to report to FINRA specified events, internal conclusions of violations, and quarterly statistical and summary information regarding written customer complaints. It also requires member firms to file with FINRA copies of specified criminal actions, civil complaints and arbitration claims. FINRA uses the information for regulatory purposes, including to gain regulatory intelligence on member firms and their representatives and, where appropriate, to initiate investigations of firms, offices and associated persons that may pose a risk to investors and appropriately respond in a timely manner.<sup>3</sup>

In addition to describing the specific reporting and filing requirements, Rule 4530 contains provisions governing how and when member firms must make the required reports and filings, establishing certain exceptions to the reporting and filing requirements, and obligating associated persons to promptly report to their member firms the existence of certain reportable events.<sup>4</sup> The rule also contains Supplementary Material that, among other things, defines certain terms, explains how to calculate monetary thresholds used in the rule, and explains the scope of some of the reporting requirements. FINRA has provided extensive guidance on Rule 4530 in *Notices* and *Frequently Asked Questions*.<sup>5</sup>

FINRA requires member firms to report the specified events, internal conclusions of violations, and customer complaint information electronically via the Firm Gateway. When reporting the specified events and internal conclusions of violations, member firms must submit a disclosure event report.<sup>6</sup> To satisfy Rule 4530 reporting obligations pursuant to the Form U4 exception in Rule 4530(e), member firms are required to affirmatively indicate (through checkboxes) that the data reported on a Form U4 Disclosure Reporting Page through the Central Registration Depository<sup>®</sup> (CRD) also be applied to satisfy their corresponding Rule 4530 reporting obligation.<sup>7</sup> When making quarterly customer complaint reports, member firms must submit a Complaints Reporting Form, which requires information about, among other things, 4530 Product Codes and 4530 Problem Codes.<sup>8</sup> For large-volume reporting of disclosure events and customer complaints, FINRA offers a file batch upload method.

To file copies of specified criminal actions, civil complaints and arbitration claims, member firms may file the required documents either electronically or in paper form.<sup>9</sup>

FINRA seeks answers to the following questions with respect to Rule 4530:

1. To what extent have the original purposes of and need for the rule been affected by regulatory, technological or other environmental changes? Are there alternative ways to achieve the goals of the rule that FINRA should otherwise consider?

2. What has been your experience with implementation of the rule, including any ambiguities in interpreting the rule (such as the rule's provisions concerning what must be reported and filed, and how to do so) or challenges in complying with the rule?
3. Are there categories of information or documents that should be added to or removed from the scope of Rule 4530? Similarly, are there categories that should be clarified or modified? If so, which categories and why?
4. What have been the economic impacts, including costs and benefits, arising from the rule? To what extent do the costs and benefits have a disproportionate impact on firms based on size and business model? Has the rule led to any negative unintended consequences?
5. Can FINRA make the rule, guidance or attendant administrative processes more efficient and effective? If so, how?
6. Are there any ambiguities or challenges when completing disclosure event reports or the Complaints Reporting Form (*e.g.*, ones relating to data fields on these reports and forms, or the 4530 Product or Problem Codes) or when using the checkbox functionality in Web CRD to satisfy a Rule 4530 reporting requirement? Should FINRA consider modifying in any way the 4530 Product and Problem Codes or the data fields on the disclosure event report or the Complaints Reporting Form?
7. Are there any challenges related to the process of electronically reporting specified events, internal conclusions of violations, or customer complaints? If so, what are they?
8. In 2013, Rule 4530 was amended to eliminate some duplicative reporting obligations.<sup>10</sup> Are there other duplicative Rule 4530 reporting obligations that FINRA should consider eliminating?
9. What other rules or regulatory requirements, if any, conflict or impede compliance with Rule 4530? Could Rule 4530, the guidance concerning that rule, or the attendant administrative processes be changed in any ways to help firms comply with other rules or regulatory requirements (for example, requirements to file and amend Forms U4 and U5)? If so, how?

In addition to comments responsive to these questions, FINRA invites comment on any other aspects of the rule that commenters wish to address. FINRA further requests any data or evidence in support of comments. While the purpose of this *Notice* is to obtain input as to whether or not the current rule is effective and efficient, FINRA also welcomes specific suggestions as to how the rule should be changed. As discussed above, FINRA will separately consider during the action phase specific changes to the rule.

## Endnotes

1. Persons submitting comments are cautioned that FINRA does not redact or edit personal identifying information, such as names or email addresses, from comment submissions. Persons should submit only information that they wish to make publicly available. See [Notice to Members 03-73](#) (Online Availability of Comments) (November 2003) for more information.
2. A rule set is a group of rules identified by FINRA staff to contain similar subjects, characteristics or objectives.
3. See generally [Regulatory Notice 11-06](#) (February 2011).
4. See Rule 4530(a), (b), (d) and (f) (containing timing requirements); Rule 4530(c) (obligation of associated persons); Rule 4530(e) (reporting requirement exception for events disclosed on the Uniform Application for Securities Industry Registration or Transfer (Form U4) or Uniform Termination Notice for Securities Industry Registration (Form U5)); Rule 4530(f)(3) and (4) (filing requirement exceptions for certain arbitration claims filed in the FINRA Dispute Resolution forum); Rule 4530(h) (filing requirement exception for documents that have been the subject of a request by FINRA's Registration and Disclosure staff); Rule 4530.10 (reporting requirement exception for findings and actions by FINRA).
5. See, e.g., [Rule 4530 Reporting Requirements](#) (Notices); see [Rule 4530 Frequently Asked Questions](#).
6. See [Rule 4530 Reporting Requirements](#) (Disclosure Events).
7. See [Regulatory Notice 13-08](#) (February 2013); [FINRA Rule 4530 – CRD Form U4 Frequently Asked Questions](#).
8. See [Rule 4530 Reporting Requirements](#) (Customer Complaints); [4530 Product and Problem Codes](#).
9. See [Rule 4530 Reporting Requirements](#) (4530 f,g).
10. See [Regulatory Notice 13-08](#) (February 2013) (amending Rule 4530 to provide exceptions for reporting information that is reported on Form U4 and for reporting findings and actions by FINRA).