

Attachment A

Regulatory Notice 20-05

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

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1200. REGISTRATION AND QUALIFICATION

1210. Registration Requirements

Each person engaged in the investment banking or securities business of a member shall be registered with FINRA as a representative or principal in each category of registration appropriate to his or her functions and responsibilities as specified in Rule 1220, unless exempt from registration pursuant to Rule 1230. Such person shall not be qualified to function in any registered capacity other than that for which the person is registered, unless otherwise stated in the rules.

••• Supplementary Material: -----

.01 through .06 No Change.

.07 All Registered [Persons] Representatives and Principals Must Satisfy the Regulatory Element of Continuing Education. All registered [persons]

representatives and principals, including those individuals who solely maintain permissive registrations pursuant to Rule 1210.02, shall satisfy the Regulatory Element of continuing education as specified in Rule 1240(a).

If a person registered with a member has a continuing education deficiency with respect to that registration as provided under Rule 1240(a), such person shall not be permitted to be registered in another registration category under Rule 1220 with that member or to be registered in any registration category under Rule 1220 with another member, until the person has satisfied the deficiency.

.08 Lapse of Registration and Expiration of SIE. Any person who was last registered [as] in a representative registration category two or more years immediately preceding the date of receipt by FINRA of a new application for registration in that registration category [as a representative] shall be required to pass a representative qualification examination appropriate to that registration [his or her] category [of registration] as specified in Rule 1220(b), unless the person has maintained his or her qualification status for that registration category in accordance with Rule 1240(c) or as otherwise permitted by FINRA. Any person who last passed the SIE or who was last registered as a representative, whichever occurred last, four or more years immediately preceding the date of receipt by FINRA of a new application for registration as a representative shall be required to pass the SIE in addition to a representative qualification examination appropriate to his or her category of registration as specified in Rule 1220(b). Any person who was last registered [as] in a principal registration category two or more years immediately preceding the date of receipt by FINRA of a new application for registration in that registration category [as a principal] shall be required to pass a principal qualification examination appropriate to that registration [his or her] category [of registration] as specified in Rule 1220(a), unless the person has maintained his or her qualification status for that registration category in accordance with Rule 1240(c) or as otherwise permitted by FINRA.

Any person whose registration has been revoked pursuant to Rule 8310 and any person who has a continuing education deficiency for a period of two years as provided under Rule 1240(a) shall be required to pass a representative or principal [or representative] qualification examination appropriate to his or her category of registration as specified in Rule 1220(a) or Rule 1220(b), respectively, to be eligible for registration with FINRA.

For purposes of Supplementary Material .08 of this Rule, an application shall not be considered to have been received by FINRA if that application does not result in a registration.

[.09 Waiver of Examinations for Individuals Working for a Financial Services

Industry Affiliate of a Member. Upon request by a member, FINRA shall waive the applicable qualification examination(s) for an individual designated with FINRA as working for a financial services industry affiliate of a member if the following conditions are met:]

[(a) Prior to the individual's initial designation, the individual was registered as a representative or principal with FINRA for a total of five years within the most recent 10-year period, including for the most recent year with the member that initially designated the individual;]

[(b) The waiver request is made within seven years of the individual's initial designation;]

[(c) The initial designation and any subsequent designation(s) were made concurrently with the filing of the individual's related Form U5;]

[(d) The individual continuously worked for the financial services industry affiliate(s) of a member since the individual's last Form U5 filing;]

[(e) The individual has complied with the Regulatory Element of continuing education as specified in Rule 1240(a); and]

[(f) The individual does not have any pending or adverse regulatory matters, or terminations, that are reportable on the Form U4, and has not otherwise been subject to a statutory disqualification as defined in Section 3(a)(39) of the Exchange Act while the individual was designated as eligible for a waiver.]

[As used in Supplementary Material .09 of this Rule, a "financial services industry affiliate of a member" is a legal entity that controls, is controlled by or is under common

control with a member and is regulated by the SEC, CFTC, state securities authorities, federal or state banking authorities, state insurance authorities, or substantially equivalent foreign regulatory authorities.]

.10 Renumbered as .09

.11 Renumbered as .10

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1240. Continuing Education [Requirements]

This Rule prescribes requirements regarding the continuing education of [specified] registered persons [subsequent to their initial registration with FINRA]. The requirements shall consist of a Regulatory Element and a Firm Element as set forth below. This Rule also sets forth a continuing education program through which specified persons may maintain their qualification in a representative or principal registration category following the termination of that registration category.

(a) Regulatory Element

(1) Requirements

All covered persons shall comply with the requirement to complete the Regulatory Element.

Each covered person registered with FINRA in a representative or principal registration category immediately preceding [the effective date of the proposed rule change] shall complete the Regulatory Element for the registration category annually by December 31 of [the calendar year in which the proposed rule change becomes effective] [on the occurrence of their second registration anniversary date] and by December 31 of every [three] year[s] thereafter in which the person remains registered, or as otherwise prescribed by FINRA. Each covered person registering with FINRA in a representative or principal registration category for the first time on or after [the effective date of the

proposed rule change] shall complete the Regulatory Element for the registration category annually by December 31 of the subsequent calendar year following the calendar year in which the person becomes registered and by December 31 of every year thereafter in which the person remains registered, or as otherwise prescribed by FINRA. Nothing in this paragraph (a)(1) shall prohibit a member from requiring its covered persons to complete their Regulatory Element for their registration categories at any time during the calendar year. [On each occasion, the Regulatory Element must be completed within 120 days after the person's registration anniversary date. A person's initial registration date, also known as the "base date," shall establish the cycle of anniversary dates for purposes of this Rule.] The content of the Regulatory Element shall be appropriate to [either the registered] each representative or principal [status of persons subject to the Rule] registration category. A covered person shall complete Regulatory Element content for each registration category that he or she holds. [The content of the Regulatory Element for a person designated as eligible for a waiver pursuant to Rule 1210.09 shall be determined based on the person's most recent registration status, and the Regulatory Element shall be completed based on the same cycle had the person remained registered.]

(2) Failure to Complete

Unless otherwise determined by FINRA, as provided in this paragraph (a)(2), any covered person[s] who [have] has not completed the Regulatory Element by January 15 of the subsequent calendar year following the prescribed calendar year in which the Regulatory Element is due [within the prescribed time frames] will have [their] his or her registration(s) deemed inactive until such time as [the requirements of the program have been satisfied] he or she completes all required Regulatory Element, including any Regulatory Element that becomes

due while his or her registration(s) is deemed inactive. If a covered person of a member fails to complete the Regulatory Element by the end of the prescribed calendar year but subsequently completes the Regulatory Element prior to the date by which his or her registration(s) is deemed inactive, the member shall document the reasons for the covered person's failure to complete the Regulatory Element within the prescribed calendar year and shall retain such documentation. FINRA may, upon written application, with supporting documentation, and a showing of good cause, allow for additional time for a covered person to satisfy the Regulatory Element requirements. Any covered person whose registration(s) has been deemed inactive under this [Rule] paragraph (a)(2) shall cease all activities as a registered person and is prohibited from performing any duties and functioning in any capacity requiring registration. Further, such covered person may not accept or solicit business or receive any compensation for the purchase or sale of securities. However, such covered person may receive trail or residual commissions resulting from transactions completed before the inactive status, unless the member with which such covered person is associated has a policy prohibiting such trail or residual commissions. A registration that [is] remains inactive for a period of two consecutive years will be administratively terminated by FINRA. A person whose registration(s) is so terminated or who has otherwise fails to complete required Regulatory Element for two consecutive years may reactivate the registration(s) only by reapplying for registration and meeting the qualification requirements of the applicable provisions of Rules 1210 and 1220. The two-year period under this paragraph (a)(2) is calculated from the date a person's registration(s) is deemed inactive. [FINRA may, upon application and a showing of good cause, allow for additional time for a covered person to satisfy the program

requirements. If a person designated as eligible for a waiver pursuant to Rule 1210.09 fails to complete the Regulatory Element within the prescribed time frames, the person shall no longer be eligible for such a waiver.]

(3) Disciplinary Actions

[Unless otherwise determined] A covered person may be required to complete assigned continuing education in a manner specified by FINRA[, a covered person, other than a person designated as eligible for a waiver pursuant to Rule 1210.09, will be required to retake the Regulatory Element and satisfy all of its requirements] in the event such person:

(A) is subject to any statutory disqualification as defined in Section 3(a)(39) of the Exchange Act;

(B) is subject to suspension or to the imposition of a fine of \$5,000 or more for violation of any provision of any securities law or regulation, or any agreement with or rule or standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory organization in connection with a disciplinary proceeding; or

(C) is ordered as a sanction in a disciplinary action to [retake the Regulatory Element] complete continuing education by any securities governmental agency or self-regulatory organization.

[The retaking of the Regulatory Element shall commence with participation] Such covered person must complete any continuing education required under this paragraph (a)(3) within 120 days of the covered person becoming subject to the statutory disqualification, in the case of (A) above, or the disciplinary action becoming final, in the case of (B) and (C) above. [The date of

the disciplinary action shall be treated as such person's new base date with FINRA.]

(4) Re-registration [association in a Registered Capacity]

Any covered person who re-registers [has terminated association] with FINRA in a representative or principal registration category [with a member and who has, within two years of the date of termination, become reassociated in a registered capacity with a member] shall [participate in] complete the Regulatory Element content for the registration category [at such intervals that may apply (second anniversary and every three years thereafter) based on the initial registration anniversary date rather than based on the date of reassociation in a registered capacity] annually by December 31 of the subsequent calendar year following the calendar year in which the person becomes re-registered and by December 31 of every year thereafter in which the person remains registered, or as otherwise prescribed by FINRA, provided that he or she has already completed Regulatory Element content for that registration category for the calendar year in which he or she is re-registering, he or she is re-registering by having passed an examination for that registration category or he or she is re-registering by having obtained an unconditional examination waiver for that registration category.

Any covered person who is re-registering with FINRA in a representative or principal registration category without having completed any Regulatory Element content for that registration category for the calendar year in which he or she is re-registering or without having passed an examination for that registration category or without having obtained an unconditional examination waiver for that registration category shall complete the Regulatory Element content for that registration category annually by December 31 of the calendar year in which he

or she re-registers and by December 31 of every year thereafter in which he or she remains registered, or as otherwise prescribed by FINRA.

If a covered person has not completed any Regulatory Element content for a registration category in the prior calendar year(s) to re-registering, FINRA would not approve a registration request for that category until he or she completes that Regulatory Element content or he or she passes an examination for that registration category or he or she obtains an unconditional examination waiver for that registration category, whichever is applicable.

Nothing in this paragraph (a)(4) shall prohibit a member from requiring its covered persons to complete their Regulatory Element for their registration categories at any time during the calendar year.

(5) Definition of Covered Person

For purposes of this Rule, the term “covered person” means any person[, other than a Foreign Associate,] registered, or registering, with FINRA as a representative or principal [pursuant to] as specified in Rule [1210] 1220, including any person who is permissively registered as such pursuant to Rule 1210.02[, and any person who is designated as eligible for a waiver pursuant to Rule 1210.09].

(6) Delivery of the Regulatory Element

The [continuing education] Regulatory Element [program will] shall be administered through Web-based delivery or such other technological manner and format as specified by FINRA.

(7) Regulatory Element Contact Person

Each member shall designate and identify to FINRA (by name and e-mail address) an individual or individuals responsible for receiving e-mail notifications [provided via the Central Registration Depository] regarding [when] a covered

person's completion of [is approaching the end of] his or her Regulatory Element [time frame and when a covered person is deemed inactive due to failure to complete the requirements of the Regulatory Element program]. Each member shall identify, review, and, if necessary, update the information regarding its Regulatory Element contact person(s) in the manner prescribed by Rule 4517.

(b) Firm Element

(1) Persons Subject to the Firm Element

The requirements of this [sub]paragraph (b) shall apply to any person registered with a member, including any person who is permissively registered as a representative or principal pursuant to Rule 1210.02 [who has direct contact with customers in the conduct of the member's securities sales, trading and investment banking activities, any person registered as an operations professional pursuant to Rule 1220(b)(3) or a research analyst pursuant to Rule 1220(b)(6), and to the immediate supervisors of such persons (collectively, "covered registered persons"). "Customer" shall mean any natural person and any organization, other than another broker or dealer, executing securities transactions with or through or receiving investment banking services from a member].

(2) Standards for the Firm Element

(A) Each member must maintain a continuing and current education program for its [covered] registered persons to enhance their securities knowledge, skill, and professionalism. At a minimum, each member shall at least annually evaluate and prioritize its training needs and develop a written training plan. The plan must take into consideration the member's size, organizational structure, and scope of business activities, as well as regulatory developments and the performance of

[covered] registered persons in the Regulatory Element. If a member's analysis establishes the need for supervisory training for persons with supervisory responsibilities, such training must be included in the member's training plan.

(B) Minimum Standards for Training Programs — Programs used to implement a member's training plan must be appropriate for the business of the member and, at a minimum must cover training in ethics and professional responsibility and the following matters concerning securities products, services, and strategies offered by the member:

(i) General investment features and associated risk factors;

(ii) Suitability and sales practice considerations; and

(iii) Applicable regulatory requirements.

(C) Administration of Continuing Education Program — A member must administer its continuing education programs under this paragraph (b) in accordance with its annual evaluation and written plan and must maintain records documenting the content of the programs and completion of the programs by [covered] registered persons.

(D) Participation in Other Required Training — A member may consider a registered person's participation in the member's anti-money laundering compliance training under Rule 3310(e) and a registered person's participation in the member's annual compliance training under Rule 3110(a)(7) towards satisfying the registered person's continuing education requirement under this paragraph (b).

(3) Participation in the Firm Element

[Covered] [r]Registered persons [included in a member's plan] of a member must take all appropriate and reasonable steps to participate in continuing education programs under this paragraph (b) as required by the member.

(4) Specific Training Requirements

FINRA may require a member, individually or as part of a larger group, to provide specific training to its [covered] registered persons in such areas as FINRA deems appropriate. Such a requirement may stipulate the class of [covered] registered persons for which it is applicable, the time period in which the requirement must be satisfied and, where appropriate, the actual training content.

(c) Continuing Education Program for Persons Maintaining Their Qualification Following the Termination of a Registration Category

A person who terminates any of his or her representative or principal registration categories with FINRA may maintain his or her qualification for any of the terminated registration categories for a period of seven years following the termination of the registration category, subject to the following conditions:

(1) The person was registered in the registration category for at least one year immediately preceding the termination of the registration category and the person was not subject to a statutory disqualification as defined in Section 3(a)(39) of the Exchange Act during the registration period;

(2) The person elects to participate in the continuing education program under this paragraph (c) at the time of his or her Form U5 submission or at a later date within two years from the termination of his or her registration category, provided that if the person commences at the later date the person completes within two years from the termination of his or her registration category any

continuing education that was due under the program between the time of his or her Form U5 submission and the later date he or she commences participating in the program;

(3) The person completes annually in a manner specified by FINRA all prescribed continuing education during his or her participation in the program under this paragraph (c), provided that FINRA may, upon written application, with supporting documentation, and a showing of good cause, allow for additional time for a program participant to complete the prescribed continuing education;

(4) The person does not have a continuing education deficiency with respect to his or her Regulatory Element for two consecutive years as provided in paragraph (a)(2) of this Rule;

(5) The person does not become subject to a continuing education deficiency with respect to his or her Regulatory Element for two consecutive years as provided in paragraph (a)(2) of this Rule while participating in the program under this paragraph (c); and

(6) The person does not become subject to a statutory disqualification as defined in Section 3(a)(39) of the Exchange Act following the termination of his or her registration category or while participating in the program under this paragraph (c).

••• Supplementary Material: -----

.01 Eligibility of Other Persons to Participate in the Continuing Education

Program Specified in Paragraph (c) of this Rule. A person registered in a representative or principal registration category with FINRA within two years immediately preceding [the effective date of the proposed rule change] shall be eligible to participate in the continuing education program under paragraph (c) of this Rule, provided that he or she satisfies the conditions set forth in paragraph (c)(1) and (c)(3) through (c)(6) of this

Rule. In addition, a person participating in the Financial Services Affiliate Waiver Program under former Rule 1210.09 immediately preceding [the effective date of the proposed rule change] shall be eligible to participate in the continuing education program under paragraph (c) of this Rule, provided that he or she satisfies the conditions set forth in paragraph (c)(3), (c)(5) and (c)(6) of this Rule. Persons eligible under this Supplementary Material .01 shall make their election to participate in the continuing education program under paragraph (c) of this Rule by [the effective date of the proposed rule change]. If such persons elect to participate in the continuing education program, FINRA shall adjust their participation period by deducting from that period the amount of time that has lapsed between the date that such persons terminated their registration categories and [the effective date of the proposed rule change].

.02 Re-Eligibility to Participate in the Continuing Education Program Specified in Paragraph (c) of this Rule. A person who previously participated in the continuing education program under paragraph (c) of this Rule may become re-eligible to participate in the program if he or she re-registers with a member firm and subsequently satisfies the conditions set forth in paragraph (c)(1) and (c)(4) of this Rule. In such an event, the person may elect to again participate in the program subject to satisfying the remaining conditions set forth in paragraph (c) of this Rule.

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