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**Via Email ([pubcom@finra.org](mailto:pubcom@finra.org))**

Jennifer Piorko Mitchell  
Office of the Corporate Secretary  
Financial Industry Regulatory Authority (FINRA)  
1735 K Street, NW  
Washington, DC 20006-1506

**RE: Regulatory Notice 20-02 (Comment Request on the Effectiveness and Efficiency of Its Reporting Requirements Rule, Rule 4530)**

Dear Ms. Piorko Mitchell:

The Cornell Securities Law Clinic (“Clinic”) submits this comment letter in response to Regulatory Notice 20-02, FINRA Requests Comment on the Effectiveness and Efficiency of its Reporting Requirements Rule (Rule 4530). The Clinic is a Cornell Law School curricular offering, in which law students provide representation to public investors and public education as to investment fraud in the largely rural “Southern Tier” region of upstate New York. For more information, please see: <http://securities.lawschool.cornell.edu>.

**I. The 30-Day Requirement for Reporting Should be Shortened to Five (5) Business Days to Account for Technological Changes.**

Under Rule 4530(a), FINRA members are obligated to report certain violations “not later than 30 calendar days, after the member knows or should have known of the existence of [the violation].” Similarly, Rule 4530(b) requires FINRA members to report certain violations “not later than 30 calendar days, after the member has concluded or reasonably should have concluded [that a violation has occurred].” This Rule was modeled, in part, after former NASD Rule 3070, which was adopted in 1995 and used the same 30-day language for its disclosure requirement.<sup>1</sup> Since 1995, the Internet has become the primary method of conducting business transactions. The Clinic believes that it is now the appropriate time to modify Rule 4530 to reflect this technological advancement.

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<sup>1</sup> <https://www.finra.org/rules-guidance/rulebooks/retired-rules/3070>

In 2013, FINRA amended Rule 4530 to add the option of filing the required documents through an online form that is directly accessible via FINRA's Firm Gateway.<sup>2</sup> The Clinic suggests that the 30-day time frame is too prolonged when there is an option to submit an online form instantaneously and directly to FINRA. The Clinic thus suggests that shortening the 30-day reporting requirement would better serve the Rule's intended regulatory purpose.

The Clinic recommends that violations of Rule 4530(a) and (b) should be reported within five (5) business days. This recommendation more closely aligns with FINRA's interest as a regulatory body, corresponding to the technological changes that have occurred in the business setting over the past thirty years.

## **II. The Language in Rule 4530(a) and (b) Should be Amended to Reflect a Clear Reasonable Diligence Standard.**

As noted above, Rule 4530(a) requires FINRA members to report violations at some point "after the member knows or should have known of" the commission of any of the listed transgressions by another member or associated person. Similarly, under Rule 4530(b), FINRA members are required to report violations only "after the member has concluded or reasonably should have concluded" that a member or associated person violated any of the listed regulations and standards of conduct. The Clinic believes that this language does not sufficiently delineate the starting date from which the duty to report runs.

First, the Clinic proposes amending the language of Rule 4530(a) and (b) to state that "each member shall use reasonable diligence to ascertain the existence of any of the following violations, and each member shall report such violation within five (5) business days." FINRA acknowledges that it currently applies a "reasonable person standard" to both 4530(a) and (b),<sup>3</sup> so it would provide uniformity of application to include this language in Rule 4530 itself.

Second, the Clinic proposes implementing an additional procedural requirement on FINRA members that could help detect violations that need to be reported under Rule 4530. For example, Rule 3310 (Anti-Money Laundering Compliance Program) requires members to "establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions."<sup>4</sup> Similar language should be added to Rule 4530, which would further clarify the requirement of members to exercise reasonable diligence in their policies and procedures to ascertain when members should know or conclude the existence of any Rule 4530 violations.

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<sup>2</sup> <https://www.finra.org/rules-guidance/notices/13-08>

<sup>3</sup> <https://www.finra.org/filing-reporting/regulatory-filing-systems/rule-4530/faq>

<sup>4</sup> <https://www.finra.org/rules-guidance/rulebooks/finra-rules/3310>

**Conclusion**

The Clinic appreciates the opportunity to comment on Rule 4530 and, for the foregoing reasons, urges FINRA to adopt the two recommendations discussed above.

Respectfully Submitted,

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