

Morgan Stanley

June 30, 2020

Submitted electronically to pubcom@finra.org

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: FINRA Regulatory Notice 20-05: Comments on Proposal to Implement the Recommendations of the CE Council Regarding Enhancements to the Continuing Education Program for Securities Industry Professionals

Dear Ms. Mitchell,

Morgan Stanley appreciates the opportunity to comment on FINRA Regulatory Notice 20-05 (“RN 20-05”), detailing FINRA’s proposal (the “Proposal”) to implement the recommendations of the Securities Industry/Regulatory Council on Continuing Education (“CE Council”) enhancing the continuing education requirements for securities industry professionals pursuant to FINRA Rule 1240.¹

Morgan Stanley is a global financial services firm with a number of U.S. registered broker-dealer subsidiaries, including Morgan Stanley Smith Barney LLC and Morgan Stanley & Co. LLC (collectively referred to in this letter as “Morgan Stanley”). Together, these two broker-dealers have approximately 26,000 registered representatives covering the wealth management and institutional (investment banking, sales and trading, research) businesses. While Morgan Stanley supports FINRA’s efforts to enhance and modernize continuing education requirements, we respectfully submit a number of suggestions below that we believe would enhance the Proposal without impairing the overall goals of the CE Council.

I. The FINRA Proposal Should Permit a 30-Day Window to Allow Firms to Effectively Identify, Address and Document Year-end Overdue Continuing Education (“CE”)

The Proposal requires individuals to complete CE by year-end and includes a 15-day window in the following year before approved registrations are changed to a CE Inactive status. To the extent a registered person completes their CE prior to January 15th, firms must document the reasons for the failure to complete during the calendar year.

¹ FINRA Rule 1240(a) requires a registered person to complete the Regulatory Element initially within 120 days after the person’s second registration anniversary date and, thereafter, within 120 days after every third registration anniversary date.

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Morgan Stanley requests clarification regarding the registration status of the individual who has not completed their CE during some or all of the 15-day period (i.e., active or inactive). In addition, the 15-day window does not appear to provide sufficient time for firms, particularly those with a large number of registered persons, to effectively and fully address the necessary identification, tracking, completion, and documentation of overdue completion of CE, particularly since it coincides with the FINRA year-end renewals cycle. Morgan Stanley respectfully proposes a 30-day window, during which time individuals would maintain an active registration and would have the opportunity to complete any overdue CE. This expanded time period would allow firms adequate time to notify, track and document the reason for overdue completion of CE (e.g., maternity leave, medical leave or illness), and would align with other FINRA registration requirements, including the 30-day period of conditional approval granted to applicants who have pending fingerprint submissions.

II. The Proposal Should be Modified to Include an Implementation Period for the Adoption of FinPro and to Allow Firms to Issue their Own Communications in Connection with Regulatory Element Requirements

The FINRA Proposal indicates that all registered persons would use the new FINRA Financial Professional GatewaySM (FinPro) system to launch and track completion of their Regulatory Element training, rather than using CE Online, as they do today. Given the impact of this change, Morgan Stanley requests that FINRA consider an implementation period to allow firms to provide education, training and support to assist their employees in successfully transitioning to using this new system.

The FINRA Proposal also indicates that the FinPro system would be used by FINRA to directly communicate with registered persons regarding Regulatory Element CE requirements, and continue to send them notifications until complete. This would be a notable change from the current construct, where firms communicate directly with their registered personnel regarding continuing education. Morgan Stanley urges FINRA to give firms the option of communicating directly with their registered persons about the Regulatory Element and to set their own internal timelines to fulfill the annual requirement. This approach would enable firms to craft tailored communications that proactively address employee questions and to establish training schedules that would allow sufficient time for follow-up to facilitate full compliance by the proposed calendar year deadline.

III. The Proposal's Requirements Regarding the Application of Registration Category Specific CE Inactive Status to New Hires Should Be Clarified

The FINRA Proposal outlines conditions where individuals may be eligible to obtain certain individual registration categories, but will not be approved until they take Regulatory Element CE related to the category (see p.7 of RN 20-05). The Proposal is unclear as to how this information will be available to firms during the hiring and onboarding process. This process is expected to create additional burdens on the Human Resources and Registration departments of hiring firms because it will require checking

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CE statuses related to each registration category. Additionally, it potentially lengthens the time it takes to onboard an individual into a registered role in all categories, by requiring them to take any outstanding CE related to specific registration categories. Morgan Stanley requests that the Proposal be clarified to provide information regarding the process for onboarding new hires with respect to registration category specific CE requirements and the resources FINRA will provide hiring firms to evaluate registration category specific CE requirements. Morgan Stanley recommends that registration category specific CE requirements be available to a hiring firm via WebCRD, during the pre-hire process, with consent of candidate.

IV. The Proposal Should be Modified to Address Operational and Compliance Challenges Posed by an Annual Regulatory Element

Regarding the CE Council recommendation that the Regulatory Element be administered annually, Morgan Stanley supports more timely training for registered persons on significant regulatory developments.

We also support the CE Council's recommendation to design more relevant content with diverse instructional formats. However, for firms such as Morgan Stanley with approximately 26,000 registered persons, many of whom hold multiple registrations, the Proposal for an annual Regulatory Element requirement poses certain potential operational and compliance challenges. In order to provide sufficient time for follow up to assure full and timely completion of this annual requirement, firms may need to set the deadline for completion earlier than the full 365 days, further compressing an already shortened timeline. In addition, individuals with multiple registrations could experience an increase in the overall time spent training over the course of a year, over and above annual Firm Element and internal training requirements.

We respectfully request that FINRA consider a phased approach with respect to the change in frequency of the Regulatory Element. FINRA could consider transitioning the Regulatory Element initially to an every-other-year requirement, instead of transitioning immediately to an annual requirement, to allow firms sufficient time to make the necessary changes to policies, systems, staffing and resources, in order to monitor registered persons' compliance in completing the annual Regulatory Element. By analyzing the results of a move to an every-other-year Regulatory Element CE cycle, FINRA would be able to perform a cost-benefit analysis to determine the impact of the change in frequency and to further consider if the benefits of the transition to an annual requirement outweigh the costs.

V. The Proposal Should Include a Cap on the Number of CE Modules

We respectfully request FINRA to consider a "cap" on the number of Regulatory Element modules to be assigned and completed in a CE cycle, as proposed in SIFMA's comment letter to RN-20-05, and rotation of modules during subsequent CE cycles when a registered person reaches the cap. This would provide a

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registered individual holding multiple licenses with relevant and timely training while balancing the total amount of training required in a CE cycle. As an example of when an individual may have to take a large volume of training modules: under the current Proposal, someone who holds an OS, GS, RP, GP and RP registrations would be expected to complete modules on Operations, General Securities, Research topics plus the principal based supervision of those areas. At a minimum, we request that FINRA conduct a cost/benefit analysis to determine the maximum number of hours that an individual with multiple licenses would be required to spend on CE.

VI. Conclusion

Morgan Stanley appreciates the opportunity to comment on RN 20-05 and FINRA's consideration of our views. We reiterate our strong support for modernizing the CE requirement and look forward to a continuing dialogue with FINRA on the Proposal.

Very truly yours,

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