

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 29	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2020 - * 026	Amendment No. (req. for Amendments *)
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Filing by Financial Industry Regulatory Authority
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Temporary Extension of the Limited Period for Registered Persons to Function as Principals (Rule 1210) and for Persons to Function as Operations Professionals (Rule 1220)

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * John Last Name * Nachmann

Title * Associate General Counsel

E-mail * john.nachmann@finra.org

Telephone * (240) 386-4816 Fax (202) 728-8264

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date 08/28/2020 Senior Vice President and Deputy General Counsel

By Patrice Gliniecki

(Name *)

Patrice Gliniecki,

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”),¹ the Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to adopt: (1) temporary Supplementary Material .12 (Temporary Extension of the Limited Period for Registered Persons to Function as Principals) under FINRA Rule 1210 (Registration Requirements); and (2) temporary Supplementary Material .07 (Temporary Extension of the Limited Period for Persons to Function as Operations Professionals) under FINRA Rule 1220 (Registration Categories). The proposed rule change would extend the 120-day period that certain individuals can function as a principal or Operations Professional without having successfully passed an appropriate qualification examination through December 31, 2020.²

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The Chief Legal Officer of FINRA authorized the filing of the proposed rule change with the SEC pursuant to delegated authority. No other action by FINRA is necessary for the filing of the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

² If FINRA seeks to provide additional temporary relief from the rule requirements identified in this proposed rule change beyond December 31, 2020, FINRA will submit a separate rule filing to further extend the temporary extension of time.

FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing, so that FINRA can implement the proposed rule change immediately.

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The COVID-19 pandemic is an unpredictable, exogenous event that has resulted in unavoidable disruptions to the securities industry and impacted member firms, regulators, investors and other stakeholders. In response to COVID-19, earlier this year FINRA began providing temporary relief to member firms from FINRA rules and requirements via frequently asked questions (“FAQs”) on its website.³ Two of these FAQs⁴ provide temporary relief to address disruptions to the administration of FINRA qualification examinations caused by the pandemic that have significantly limited the ability of individuals to sit for these examinations due to Prometric test center capacity issues.⁵

³ See Frequently Asked Questions Related to Regulatory Relief Due to the Coronavirus Pandemic, available at <https://www.finra.org/rules-guidance/key-topics/covid-19/faq>.

⁴ See <https://www.finra.org/rules-guidance/key-topics/covid-19/faq#qe>.

⁵ At the outset of the COVID-19 pandemic, all FINRA qualification examinations were administered at test centers operated by Prometric. Based on the health and welfare concerns resulting from COVID-19, in March Prometric closed all of its test centers in the United States and Canada and began to slowly reopen some of them at limited capacity in May. At this time, not all of these Prometric test centers have reopened at full capacity.

FINRA published the first FAQ on March 20, 2020, providing that individuals whom were designated to function as principals under FINRA Rule 1210.04 prior to February 2, 2020, would be given until May 31, 2020, to pass the appropriate principal qualification examination.⁶ On May 19, 2020, FINRA extended the relief to pass the appropriate examination until June 30, 2020. Most recently, on June 29, 2020, FINRA again extended the temporary relief providing that individuals who were designated to function as principals under FINRA Rule 1210.04 prior to May 4, 2020, would be given until August 31, 2020, to pass the appropriate principal qualification examination.⁷

FINRA published the second FAQ on May 15, 2020, providing that individuals whom were designated to function as Operations Professionals under FINRA Rule 1220(b)(3)(B) prior to February 2, 2020, would be given until June 30, 2020, to pass the applicable qualification examination.⁸ On June 29, 2020, FINRA extended the temporary relief providing that individuals who were designated to function as Operations Professionals under FINRA Rule 1220(b)(3)(B) prior to May 4, 2020, would be given until August 31, 2020, to pass the appropriate qualification examination.⁹

⁶ FINRA Rule 1210.04 (Requirements for Registered Persons Functioning as Principals for a Limited Period) allows a member firm to designate certain individuals to function in a principal capacity for 120 calendar days before having to pass an appropriate principal qualification examination.

⁷ See supra note 4.

⁸ Pursuant to FINRA Rule 1220(b)(3)(B) (Qualifications), a person registering as an Operations Professional may function in that capacity for 120 days before having to pass an applicable qualification examination.

⁹ See supra note 4.

FINRA continues to closely monitor the impact of the COVID-19 pandemic on member firms, investors, and other stakeholders. One of the impacts of COVID-19 continues to be serious interruptions in the administration of FINRA qualification examinations at Prometric test centers and the limited ability of individuals to sit for the examinations.¹⁰ Although Prometric has begun reopening test centers, Prometric's safety practices mean that currently not all test centers are open, some of the open test centers are at limited capacity, and some open test centers are delivering only certain examinations that have been deemed essential by the local government.¹¹ Furthermore, Prometric has had to close some reopened test centers due to incidents of COVID-19 cases. The initial nationwide closure in March along with the inability to fully reopen all Prometric test centers due to COVID-19 have led to a significant backlog of individuals who are waiting to sit for FINRA examinations.¹²

In addition, firms are continuing to experience operational challenges with much of their personnel working from home due to shelter-in-place orders, restrictions on businesses and social activity imposed in various states, and adherence to other social

¹⁰ Information about the continued impact of COVID-19 on FINRA-administered examinations is available at <https://www.finra.org/rules-guidance/key-topics/covid-19/exams>.

¹¹ Information from Prometric about its safety practices and the impact of COVID-19 on its operations is available at <https://www.prometric.com/corona-virus-update>. See also *supra* note 10.

¹² Although an online test delivery service has been launched to help address the backlog, the General Securities Principal Exam (Series 24) and the Operations Professional Exam (Series 99) are not available online. See *supra* note 10.

distancing guidelines consistent with the recommendations of public health officials.¹³

As a result, firms continue to face potentially significant disruptions to their normal business operations that may include a limitation of in-person activities and staff absenteeism as a result of the health and welfare concerns stemming from COVID-19. Such potential disruptions may be further exacerbated and may even affect client services if firms cannot continue to keep principal or Operations Professional positions filled as they may have difficulty finding other qualified individuals to transition into these roles or may need to reallocate employee time and resources away from other critical responsibilities at the firm.

These ongoing, extenuating circumstances make it impracticable for member firms to ensure that the individuals whom they have designated to function in a principal or Operations Professional capacity, as set forth in FINRA Rules 1210.04 and 1220(b)(3)(B), are able to successfully sit for and pass an appropriate qualification examination within the 120-calendar day period required under the rules, or to find other qualified staff to fill these positions. The ongoing circumstances also require individuals to be exposed to the health risks associated with taking an in-person examination, because the General Securities Principal and Operations Professional examinations are not available online. Therefore, FINRA is proposing to continue the temporary relief provided through the FAQs by adopting Rules 1210.12 and 1220.07 to extend the 120-day period during which an individual can function as a principal or Operations

¹³ See, e.g., Centers for Disease Control and Prevention, How to Protect Yourself & Others, <https://www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/prevention.html>.

Professional before having to pass an applicable qualification examination until December 31, 2020.¹⁴ The proposed rule change would apply only to those individuals who were designated to function as a principal or Operations Professional prior to September 3, 2020. Any individuals designated to function as a principal or Operations Professional on or after September 3, 2020, would need to successfully pass an appropriate qualification examination within 120 days.¹⁵

FINRA believes that this proposed continued extension of time is tailored to address the needs and constraints on a firm's operations during the COVID-19 pandemic, without significantly compromising critical investor protection. The proposed extension of time will help to minimize the impact of COVID-19 on firms by providing continued flexibility so that firms can ensure that principal and Operations Professional positions remain filled. The potential risks from the proposed extension of the 120-day period are mitigated by the firm's continued requirement to supervise the activities of these designated individuals and ensure compliance with federal securities laws and regulations, as well as FINRA rules.

As noted in Item 2 of this filing, FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing, so FINRA can implement the proposed rule change immediately.

¹⁴ See supra note 2.

¹⁵ FINRA notes that the proposed rule change would impact members that have elected to be treated as capital acquisition brokers ("CABs"), given that the CAB rule set incorporates the impacted FINRA rules by reference.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁶ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

The proposed rule change is intended to minimize the impact of COVID-19 on firm operations by further extending the 120-day period certain individuals may function as a principal or Operations Professional without having successfully passed an appropriate qualification examination under FINRA Rules 1210.04 and 1220(b)(3)(B) until December 31, 2020. The proposed rule change does not relieve firms from maintaining, under the circumstances, a reasonably designed system to supervise the activities of their associated persons to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules that directly serve investor protection. In a time when faced with unique challenges resulting from the COVID-19 pandemic, FINRA believes that the proposed rule change is a sensible accommodation that will continue to afford firms the ability to ensure that critical positions are filled and client services maintained, while continuing to serve and promote the protection of investors and the public interest in this unique environment.

¹⁶ 15 U.S.C. 78q-3(b)(6).

4. Self-Regulatory Organization’s Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is intended solely to provide temporary relief given the impacts of the COVID-19 pandemic crisis.¹⁷ As a result of the temporary nature of the proposed relief, an abbreviated economic impact assessment is appropriate.

Economic Impact Assessment

A. Regulatory Objective

FINRA is proposing this temporary relief to address the public health risks and corresponding challenges during the COVID-19 pandemic. Social distancing, quarantining and other similar requirements to promote the health and safety of citizens have resulted in serious interruptions in the administration of FINRA qualification examinations at Prometric test centers and the limited ability of individuals to sit for the examinations. In recognition of these extraordinary times, the proposed rule change would temporarily extend the time that individuals can function as a principal or Operations Professional without having successfully passed an appropriate qualification examination.

B. Economic Baseline

As described above, FINRA Rules 1210.04 and 1220(b)(3)(B) allow firms to designate certain individuals to function in a principal or Operations Professional capacity for 120 calendar days before having to pass an appropriate principal

¹⁷ See also Regulatory Notice 20-08 (March 2020).

qualification examination. As also described above, FINRA has provided temporary extensions to the 120-day period through FAQs, most recently in June 2020.

Currently, approximately 157,000 individuals are registered as principals and approximately 36,000 are registered as Operations Professionals. Additionally, FINRA estimates that approximately 6,000 individuals pass the General Securities Principal (Series 24) exam each year.¹⁸

C. Economic Impact

The proposed rule change is intended solely to provide a temporary mechanism for firms to address the difficulty of ensuring that the individuals whom they have designated to function in a principal or Operations Professional capacity are able to successfully sit for and pass an appropriate qualification examination within the 120-calendar day period required under the rules while the COVID-19 pandemic continues to pose health and safety risks. The proposed rule change is necessary to temporarily rebalance the attendant benefits and costs of the obligations under FINRA Rules 1210 and 1220 in response to the impacts of the COVID-19 pandemic.

Anticipated Benefits

The benefits of the proposed temporary rule change will mainly accrue to those individuals who are operating as principals or Operations Professionals without having yet passed the appropriate qualification examinations, as permitted under FINRA rules, as these individuals will have additional time to pass their qualification examinations. The additional time provided to those individuals to pass the appropriate examinations will likely prevent any disruption to their employment associated with not meeting the

¹⁸ Statistic is based on average examination volume from 2017-2019.

examination requirement. Further, neither the principal examination nor the Operations Professional (Series 99) examination are available via remote testing. Therefore, the proposed temporary rule change will also allow those individuals to avoid any health risks (and resulting costs) associated with taking an in-person examination.

Firms employing principals and Operations Professionals who have not yet passed their qualifying examinations will also benefit from continuity in their business operations. If those firms were required to prevent those individuals from functioning as principals or Operations Professionals, this would likely have spillover effects on firm procedures and services. Relatedly, investors at those firms will benefit from the resulting business continuity.

Anticipated Costs

As previously stated, the public health risks stemming from the COVID-19 pandemic have increased the costs associated with sitting for in-person qualification examinations. FINRA carefully considered the implications of extending the 120-calendar day period provided in FINRA Rules 1210.04 and 1220(b)(3)(B) and the potential for any downstream effects on retail investors and believes that there are potential negative spillover effects on investors if firms' processes are interrupted, as noted above. Further, FINRA believes that any risk associated with the extension of time is mitigated by the fact that the extension is temporary and by members' ongoing obligations to supervise the activities of associated persons.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

The proposed rule change is effective upon filing pursuant to Section 19(b)(3) of the Act¹⁹ and paragraph (f)(6) of Rule 19b-4 thereunder,²⁰ in that the proposed rule change does not significantly affect the protection of investors or the public interest; does not impose any significant burden on competition; and does not become operative for 30 days after filing or such shorter time as the Commission may designate.

FINRA requests that the Commission waive the requirement that the proposed rule change, by its terms, not become operative for 30 days after the date of the filing as set forth in Rule 19b-4(f)(6)(iii),²¹ so that the proposed rule change may become operative immediately. Waiver of the operative delay would allow the proposed change to be in effect on the date of filing to extend the temporary relief to firms during these unique circumstances resulting from the COVID-19 pandemic. In accordance with Rule 19b-4(f)(6),²² FINRA submitted written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five

¹⁹ 15 U.S.C. 78s(b)(3).

²⁰ 17 CFR 240.19b-4(f)(6).

²¹ 17 CFR 240.19b-4(f)(6)(iii).

²² 17 CFR 240.19b-4(f)(6).

business days prior to the date of filing, or such shorter time as the Commission may designate, as specified in Rule 19b-4(f)(6)(iii) under the Act.²³

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 5. Text of the proposed rule change.

²³ 17 CFR 240.19b-4(f)(6)(iii).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2020-026)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Temporarily Adopt (1) Supplementary Material .12 (Temporary Extension of the Limited Period for Registered Persons to Function as Principals) under FINRA Rule 1210 and (2) Supplementary Material .07 (Temporary Extension of the Limited Period for Persons to Function as Operations Professionals) under FINRA Rule 1220

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,³ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to adopt: (1) temporary Supplementary Material .12 (Temporary Extension of the Limited Period for Registered Persons to Function as Principals) under FINRA Rule 1210 (Registration Requirements); and (2) temporary

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

Supplementary Material .07 (Temporary Extension of the Limited Period for Persons to Function as Operations Professionals) under FINRA Rule 1220 (Registration Categories). The proposed rule change would extend the 120-day period that certain individuals can function as a principal or Operations Professional without having successfully passed an appropriate qualification examination through December 31, 2020.⁴

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The COVID-19 pandemic is an unpredictable, exogenous event that has resulted in unavoidable disruptions to the securities industry and impacted member firms, regulators, investors and other stakeholders. In response to COVID-19, earlier this year FINRA began providing temporary relief to member firms from FINRA rules and

⁴ If FINRA seeks to provide additional temporary relief from the rule requirements identified in this proposed rule change beyond December 31, 2020, FINRA will submit a separate rule filing to further extend the temporary extension of time.

requirements via frequently asked questions (“FAQs”) on its website.⁵ Two of these FAQs⁶ provide temporary relief to address disruptions to the administration of FINRA qualification examinations caused by the pandemic that have significantly limited the ability of individuals to sit for these examinations due to Prometric test center capacity issues.⁷

FINRA published the first FAQ on March 20, 2020, providing that individuals whom were designated to function as principals under FINRA Rule 1210.04 prior to February 2, 2020, would be given until May 31, 2020, to pass the appropriate principal qualification examination.⁸ On May 19, 2020, FINRA extended the relief to pass the appropriate examination until June 30, 2020. Most recently, on June 29, 2020, FINRA again extended the temporary relief providing that individuals who were designated to function as principals under FINRA Rule 1210.04 prior to May 4, 2020, would be given until August 31, 2020, to pass the appropriate principal qualification examination.⁹

⁵ See Frequently Asked Questions Related to Regulatory Relief Due to the Coronavirus Pandemic, available at <https://www.finra.org/rules-guidance/key-topics/covid-19/faq>.

⁶ See <https://www.finra.org/rules-guidance/key-topics/covid-19/faq#qe>.

⁷ At the outset of the COVID-19 pandemic, all FINRA qualification examinations were administered at test centers operated by Prometric. Based on the health and welfare concerns resulting from COVID-19, in March Prometric closed all of its test centers in the United States and Canada and began to slowly reopen some of them at limited capacity in May. At this time, not all of these Prometric test centers have reopened at full capacity.

⁸ FINRA Rule 1210.04 (Requirements for Registered Persons Functioning as Principals for a Limited Period) allows a member firm to designate certain individuals to function in a principal capacity for 120 calendar days before having to pass an appropriate principal qualification examination.

⁹ See supra note 6.

FINRA published the second FAQ on May 15, 2020, providing that individuals whom were designated to function as Operations Professionals under FINRA Rule 1220(b)(3)(B) prior to February 2, 2020, would be given until June 30, 2020, to pass the applicable qualification examination.¹⁰ On June 29, 2020, FINRA extended the temporary relief providing that individuals who were designated to function as Operations Professionals under FINRA Rule 1220(b)(3)(B) prior to May 4, 2020, would be given until August 31, 2020, to pass the appropriate qualification examination.¹¹

FINRA continues to closely monitor the impact of the COVID-19 pandemic on member firms, investors, and other stakeholders. One of the impacts of COVID-19 continues to be serious interruptions in the administration of FINRA qualification examinations at Prometric test centers and the limited ability of individuals to sit for the examinations.¹² Although Prometric has begun reopening test centers, Prometric's safety practices mean that currently not all test centers are open, some of the open test centers are at limited capacity, and some open test centers are delivering only certain examinations that have been deemed essential by the local government.¹³ Furthermore, Prometric has had to close some reopened test centers due to incidents of COVID-19

¹⁰ Pursuant to FINRA Rule 1220(b)(3)(B) (Qualifications), a person registering as an Operations Professional may function in that capacity for 120 days before having to pass an applicable qualification examination.

¹¹ See supra note 6.

¹² Information about the continued impact of COVID-19 on FINRA-administered examinations is available at <https://www.finra.org/rules-guidance/key-topics/covid-19/exams>.

¹³ Information from Prometric about its safety practices and the impact of COVID-19 on its operations is available at <https://www.prometric.com/corona-virus-update>. See also supra note 12.

cases. The initial nationwide closure in March along with the inability to fully reopen all Prometric test centers due to COVID-19 have led to a significant backlog of individuals who are waiting to sit for FINRA examinations.¹⁴

In addition, firms are continuing to experience operational challenges with much of their personnel working from home due to shelter-in-place orders, restrictions on businesses and social activity imposed in various states, and adherence to other social distancing guidelines consistent with the recommendations of public health officials.¹⁵ As a result, firms continue to face potentially significant disruptions to their normal business operations that may include a limitation of in-person activities and staff absenteeism as a result of the health and welfare concerns stemming from COVID-19. Such potential disruptions may be further exacerbated and may even affect client services if firms cannot continue to keep principal or Operations Professional positions filled as they may have difficulty finding other qualified individuals to transition into these roles or may need to reallocate employee time and resources away from other critical responsibilities at the firm.

These ongoing, extenuating circumstances make it impracticable for member firms to ensure that the individuals whom they have designated to function in a principal or Operations Professional capacity, as set forth in FINRA Rules 1210.04 and 1220(b)(3)(B), are able to successfully sit for and pass an appropriate qualification

¹⁴ Although an online test delivery service has been launched to help address the backlog, the General Securities Principal Exam (Series 24) and the Operations Professional Exam (Series 99) are not available online. See *supra* note 12.

¹⁵ See, e.g., Centers for Disease Control and Prevention, How to Protect Yourself & Others, <https://www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/prevention.html>.

examination within the 120-calendar day period required under the rules, or to find other qualified staff to fill these positions. The ongoing circumstances also require individuals to be exposed to the health risks associated with taking an in-person examination, because the General Securities Principal and Operations Professional examinations are not available online. Therefore, FINRA is proposing to continue the temporary relief provided through the FAQs by adopting Rules 1210.12 and 1220.07 to extend the 120-day period during which an individual can function as a principal or Operations Professional before having to pass an applicable qualification examination until December 31, 2020.¹⁶ The proposed rule change would apply only to those individuals who were designated to function as a principal or Operations Professional prior to September 3, 2020. Any individuals designated to function as a principal or Operations Professional on or after September 3, 2020, would need to successfully pass an appropriate qualification examination within 120 days.¹⁷

FINRA believes that this proposed continued extension of time is tailored to address the needs and constraints on a firm's operations during the COVID-19 pandemic, without significantly compromising critical investor protection. The proposed extension of time will help to minimize the impact of COVID-19 on firms by providing continued flexibility so that firms can ensure that principal and Operations Professional positions remain filled. The potential risks from the proposed extension of the 120-day period are mitigated by the firm's continued requirement to supervise the activities of these

¹⁶ See supra note 4.

¹⁷ FINRA notes that the proposed rule change would impact members that have elected to be treated as capital acquisition brokers ("CABs"), given that the CAB rule set incorporates the impacted FINRA rules by reference.

designated individuals and ensure compliance with federal securities laws and regulations, as well as FINRA rules.

FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing, so FINRA can implement the proposed rule change immediately.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁸ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

The proposed rule change is intended to minimize the impact of COVID-19 on firm operations by further extending the 120-day period certain individuals may function as a principal or Operations Professional without having successfully passed an appropriate qualification examination under FINRA Rules 1210.04 and 1220(b)(3)(B) until December 31, 2020. The proposed rule change does not relieve firms from maintaining, under the circumstances, a reasonably designed system to supervise the activities of their associated persons to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules that directly serve investor protection. In a time when faced with unique challenges resulting from the COVID-19 pandemic, FINRA believes that the proposed rule change is a sensible accommodation

¹⁸ 15 U.S.C. 78q-3(b)(6).

that will continue to afford firms the ability to ensure that critical positions are filled and client services maintained, while continuing to serve and promote the protection of investors and the public interest in this unique environment.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is intended solely to provide temporary relief given the impacts of the COVID-19 pandemic crisis.¹⁹ As a result of the temporary nature of the proposed relief, an abbreviated economic impact assessment is appropriate.

Economic Impact Assessment

A. Regulatory Objective

FINRA is proposing this temporary relief to address the public health risks and corresponding challenges during the COVID-19 pandemic. Social distancing, quarantining and other similar requirements to promote the health and safety of citizens have resulted in serious interruptions in the administration of FINRA qualification examinations at Prometric test centers and the limited ability of individuals to sit for the examinations. In recognition of these extraordinary times, the proposed rule change would temporarily extend the time that individuals can function as a principal or Operations Professional without having successfully passed an appropriate qualification examination.

¹⁹ See also Regulatory Notice 20-08 (March 2020).

B. Economic Baseline

As described above, FINRA Rules 1210.04 and 1220(b)(3)(B) allow firms to designate certain individuals to function in a principal or Operations Professional capacity for 120 calendar days before having to pass an appropriate principal qualification examination. As also described above, FINRA has provided temporary extensions to the 120-day period through FAQs, most recently in June 2020.

Currently, approximately 157,000 individuals are registered as principals and approximately 36,000 are registered as Operations Professionals. Additionally, FINRA estimates that approximately 6,000 individuals pass the General Securities Principal (Series 24) exam each year.²⁰

C. Economic Impact

The proposed rule change is intended solely to provide a temporary mechanism for firms to address the difficulty of ensuring that the individuals whom they have designated to function in a principal or Operations Professional capacity are able to successfully sit for and pass an appropriate qualification examination within the 120-calendar day period required under the rules while the COVID-19 pandemic continues to pose health and safety risks. The proposed rule change is necessary to temporarily rebalance the attendant benefits and costs of the obligations under FINRA Rules 1210 and 1220 in response to the impacts of the COVID-19 pandemic.

Anticipated Benefits

The benefits of the proposed temporary rule change will mainly accrue to those individuals who are operating as principals or Operations Professionals without having

²⁰ Statistic is based on average examination volume from 2017-2019.

yet passed the appropriate qualification examinations, as permitted under FINRA rules, as these individuals will have additional time to pass their qualification examinations. The additional time provided to those individuals to pass the appropriate examinations will likely prevent any disruption to their employment associated with not meeting the examination requirement. Further, neither the principal examination nor the Operations Professional (Series 99) examination are available via remote testing. Therefore, the proposed temporary rule change will also allow those individuals to avoid any health risks (and resulting costs) associated with taking an in-person examination.

Firms employing principals and Operations Professionals who have not yet passed their qualifying examinations will also benefit from continuity in their business operations. If those firms were required to prevent those individuals from functioning as principals or Operations Professionals, this would likely have spillover effects on firm procedures and services. Relatedly, investors at those firms will benefit from the resulting business continuity.

Anticipated Costs

As previously stated, the public health risks stemming from the COVID-19 pandemic have increased the costs associated with sitting for in-person qualification examinations. FINRA carefully considered the implications of extending the 120-calendar day period provided in FINRA Rules 1210.04 and 1220(b)(3)(B) and the potential for any downstream effects on retail investors and believes that there are potential negative spillover effects on investors if firms' processes are interrupted, as noted above. Further, FINRA believes that any risk associated with the extension of time

is mitigated by the fact that the extension is temporary and by members' ongoing obligations to supervise the activities of associated persons.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act²¹ and Rule 19b-4(f)(6) thereunder.²²

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f)(6).

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2020-026 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2020-026. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only

information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2020-026 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²³

Jill M. Peterson
Assistant Secretary

²³ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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

* * * * *

1000. MEMBER APPLICATION AND ASSOCIATED PERSON

REGISTRATION

* * * * *

1200. REGISTRATION AND QUALIFICATION

1210. Registration Requirements

No Change.

••• Supplementary Material: -----

.01 through .11 No Change.

.12 Temporary Extension of the Limited Period for Registered Persons to Function

as Principals. Any person who was designated to function as a principal under Supplementary Material .04 of this Rule prior to September 3, 2020, may continue to function as a principal without having successfully passed an appropriate qualification examination until December 31, 2020.

1220. Registration Categories

(a) through (b) No Change.

••• Supplementary Material: -----

.01 through .06 No Change.

.07 Temporary Extension of the Limited Period for Persons to Function as

Operations Professionals. Any person who was designated to function as an Operations

Professional under paragraph (b)(3)(B) of this Rule prior to September 3, 2020, may

continue to function as an Operations Professional without having successfully passed an appropriate qualification examination until December 31, 2020.

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