Disclosure Video Series

Regulatory Action, Investigation, and Statutory Disqualification

June 28, 2022
Agenda

01 FINRA Gateway Demo – Dynamic Reports
02 Regulatory Action and Investigation Reporting
03 Investigation and Regulatory Action DRP Demo
04 Statutory Disqualification (SD) Implications
05 Questions & Answers
FINRA Gateway Demo – Dynamic Reports
U4 Regulatory Action Disclosure Questions

14C - SEC & CFTC Actions
➢ Willful Violations
➢ Failure to Supervise

14D – Other Federal, State, and Foreign Financial Regulatory Actions
➢ S-Ox Bars
➢ S-Ox FMD’s

14E – SRO Actions
➢ Willful Failure to Disclose
➢ Failure to Supervise

14F – Authorization to act ... revoked or suspended

14G – Pending Matters ...
➢ (1) Complaints and Proceedings should be reported on the Regulatory Action DRP
➢ (2) Investigations should be reported on the Investigation DRP

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U5 Regulatory Action Disclosure Questions

7A – Investigation Disclosure

“Currently is, or at termination was, the individual the subject of an investigation or proceeding ...”
➢ Proceedings should be reported on the Regulatory Action DRP
➢ Investigations should be reported on the Investigation DRP

7D – Regulatory Action Disclosure

“While employed by or associated with your firm, or in connection with events that occurred while the individual was employed by or associated with your firm, was the individual involved in any disciplinary action ...”
➢ All matters should be reported on the Regulatory Action DRP
**Investigation defined**

**Investigation includes:**

- Grand jury investigations
- SEC investigations after the "Wells" notice has been given
- FINRA investigations after the "Wells" notice has been given
- NYSE Regulation investigations after the "Wells" notice has been given
- Formal investigations by other SROs
- Actions or procedures designated as investigations by jurisdictions

**Investigation does not include:**

- Subpoenas
- Preliminary or routine regulatory inquiries or requests for information
- Deficiency letters
- “Blue sheet” requests or other trading questionnaires
- Examinations

**REGULATORY ACTIONS!**
Regulatory Action – Document Follow-up

Documents **not** required for:

- SEC & CFTC
- FINRA & NYSE
- Other SROs/Exchanges
  NOTE: Except CBOE

Documents **are** required for:

- State Regulators
- Other Federal Regulators
- Foreign Regulators
  NOTE: Submit a certified English translation

*Important: Reg Action Documents must be complete & signed by all parties!*

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Statutory Disqualification (SD)

SD Definition: Section 3(a)(39) of the Exchange Act

Common regulatory sanctions and/or findings that may lead to disqualification:

- Bars, suspensions, revocations, expulsions
- Willful false statements or omissions of material information
- Final state orders issuing a bar or based on fraudulent, manipulative or deceptive conduct (FMD)
- Willful violations of federal securities laws and regulations
- Failure to supervise an individual who violated federal securities laws

See https://www.finra.org/rules-guidance/guidance/eligibility-requirements for more details
Statutory Disqualification Process

1. Determination and Notification of SD Status
   A full list of SD Codes is available here

2. Receipt & Review of MC-400 Application by CRED

3. Review by Member Supervision’s SD Group
   See https://www.finra.org/rules-guidance/guidance/eligibility-requirements
   for next steps and additional details
Tips and Best Practices

1. Individual reporting is required on Form U4 or U5.
2. Answer all applicable questions “Yes” – more than one often applies.
3. Be sure to complete the correct DRP.
4. Disclose reportable matters in a timely manner.
5. Be sure to update DRPs in a timely manner as matters progress.
6. Ensure descriptions are complete, accurate, and understandable.
7. Ensure the Sanction Details are complete and accurate.
8. Avoid reporting sensitive, personal, and/or confidential information.
9. Be mindful of DRP comments; amend/update when necessary.
10. Submit documents as required.
Resources

Form U4 and Form U5 Instructions

Explanations of Terms

- Investment-related
- Investigation
- Found
- Final Order

Form U4 and U5 Interpretive Questions and Answers

- Please do not upload or email this document to Disclosure Review
For questions regarding specific disclosure reporting issues, Call 301-869-6699, Option 4 for Disclosure Review