

## Capital Acquisition Brokers

### FINRA Adopts Amendments to the Capital Acquisition Broker Rules

#### Summary

As part of the FINRA Forward initiative, FINRA has adopted amendments to the Capital Acquisition Broker (CAB) rules that are designed to reduce the regulatory burden on CABs while maintaining CABs' limited institutional business model and important investor protections. The amendments will be effective on March 25, 2026.

The text of the rule change is set forth in [Attachment A](#).

Questions concerning this *Notice* should be directed to:

- ▶ Joe Savage, Vice President and Associate General Counsel, Office of General Counsel (OGC), at [joe.savage@finra.org](mailto:joe.savage@finra.org) or (240) 386-4534; or
- ▶ Lisa Horrigan, Associate General Counsel, OGC, at [lisa.horrigan@finra.org](mailto:lisa.horrigan@finra.org) or (202) 728-8331.

#### BACKGROUND & DISCUSSION

The amendments to the CAB rules are part of the FINRA Forward initiative, which is intended to, among other things, modernize FINRA's rules, guidance and processes, and empower member compliance.<sup>1</sup> In [Regulatory Notice 25-06](#) (March 2025), FINRA requested comment on whether changes to FINRA rules, guidance, operations or administrative processes would facilitate capital formation and reduce unnecessary regulatory costs and burdens impacting the capital raising process. FINRA requested comment in several specific areas, including CABs and other limited purpose broker-dealers.

CABs are FINRA member broker-dealers that help promote capital formation through specified functions—essentially acting as placement agents for sales of unregistered securities to institutional investors, acting as intermediaries in connection with the change of control of privately held companies, and advising companies and private equity funds on capital raising and corporate restructuring. CABs' specified functions do not include broader broker-dealer activities,

February 23, 2026

#### Notice Type

- ▶ Rule Amendment

#### Suggested Routing:

- ▶ Compliance
- ▶ Legal
- ▶ Senior Management

#### Key Topics:

- ▶ Capital Acquisition Brokers (CABs)
- ▶ Change of Control Transactions
- ▶ Institutional Investors
- ▶ Mergers & Acquisitions
- ▶ Private Placements
- ▶ Secondary Transactions
- ▶ Unregistered Securities

#### Referenced Rules & Notices:

- ▶ CAB Rule 016
- ▶ CAB Rule 328
- ▶ CAB Rule 511
- ▶ FINRA Rule 3280
- ▶ Form CRS
- ▶ ICA Rule 3c-5
- ▶ Investment Company Act (ICA)
- ▶ Regulation Best Interest
- ▶ Section 15(b)(13) of the Exchange Act

such as accepting customers' trading orders, carrying customer accounts, handling customers' funds or securities, or engaging in proprietary trading or market-making.

The CAB rules were adopted to improve efficiency and reduce regulatory burdens by reducing the range of rules that apply to CABs while maintaining necessary investor protections. Given their limited institutional business model, CABs are subject to fewer restrictions on specified activities (such as advertising) and have less extensive supervisory requirements because their activities are limited to specific, lower risk capital raising.

Informed by feedback from the industry, FINRA has amended the CAB rules to address some of the operational and competitive challenges that CABs may face under the rules.<sup>2</sup>

#### **Definition of "Institutional Investor"**

Prior to the amendments, CAB Rule 016(i) defined the term "institutional investor" to mean specified entities and individuals, such as banks, insurance companies, governmental entities, employee benefit plans and persons meeting the definition of "qualified purchaser" under the Investment Company Act (ICA).<sup>3</sup> Among other things, CABs are permitted to qualify, identify, solicit, or act as a placement agent or finder on behalf of an issuer in connection with the sale of newly issued, unregistered securities to institutional investors.<sup>4</sup>

The amendments modify the definition of "institutional investor" under CAB Rule 016(i) to also include "eligible employees," a new defined term that includes specified officers, directors and employees of an issuer, or a person that controls an issuer, for which the CAB has provided services permitted under subparagraphs (F) and (G) of CAB Rule 016(c)(1).<sup>5</sup> Thus, the amended definition expands the pool of permissible investors in sales of unregistered securities in which CABs are permitted to participate under the CAB rules.

The term "eligible employee" includes "knowledgeable employees" under ICA Rule 3c-5, which includes specified senior officers, directors and employees of private funds and their advisers.<sup>6</sup> The term "eligible employee" also includes a similar range of officers, directors, and employees who perform policy-making functions of issuers other than private funds.

FINRA notes that if a CAB recommends a securities transaction to an eligible employee who qualifies as a retail customer under Regulation Best Interest (Reg BI),<sup>7</sup> or a retail investor for purposes of Form CRS,<sup>8</sup> the CAB must comply with the requirements of Reg BI and Form CRS.

### **Sales of Newly Issued, Unregistered Securities**

Prior to the amendments, CAB Rule 016(c)(1)(F)(i) permitted CABs to act as a placement agent or finder on behalf of an issuer in connection with the sale of newly issued, unregistered securities to institutional investors.

The amendments permit CABs to also act as a placement agent or finder on behalf of an institutional investor buyer in connection with a sale of newly issued, unregistered securities.<sup>9</sup> Thus, CABs are no longer limited to acting on behalf of an issuer in connection with such sales.

### **Change of Control Transactions**

Prior to the amendments, CAB Rule 016(c)(1)(F)(ii) permitted CABs to qualify, identify, solicit or act as a placement agent or finder on behalf of an issuer or a control person in connection with a change of control of a privately held company.<sup>10</sup>

The amendments permit CABs to represent the buyer or seller in a transaction involving a change of control of a privately held company.<sup>11</sup> Thus, CABs are no longer limited to acting on behalf of an issuer or control person in change of control transactions.

Under the amended rule, a CAB may represent both the buyer and seller in the same change of control transaction after providing clear written disclosure as to the parties the CAB represents and obtaining written consent from both parties to the joint representation.<sup>12</sup>

In addition, the amendments define the term “control” as the power, directly or indirectly, to direct the management or policies of a company, whether through ownership of securities, by contract or otherwise.<sup>13</sup> Control will be presumed to exist if, upon completion of the transaction, the buyer or group of buyers has the right to vote or the power to sell or direct the sale of 25 percent or more of a class of voting securities, or in the case of a partnership or limited liability company, has the right to receive upon dissolution or has contributed 25 percent or more of the capital. Thus, the definition of “control” under the amended rule considers whether control exists upon completion of the transaction (versus prior to the transaction, as under the previous definition of “control person”), while maintaining the 25 percent voting securities and capital thresholds.

### **Secondary Transactions of Unregistered Securities**

Prior to the amendments, CABs were permitted to act as a placement agent or finder in connection with a secondary transaction of unregistered securities only with respect to changes of control of privately held companies.

New CAB Rule 016(c)(1)(H) permits CABs to also act as a placement agent or finder for an institutional investor that seeks to sell or buy unregistered securities where both the seller and buyer of such unregistered securities are institutional investors and the sale qualifies for an exemption from registration under the Securities Act of 1933 (e.g., Securities Act Rule 144 or 144A).

### **Private Securities Transactions**

Prior to the amendments, under CAB Rule 328, no person associated with a CAB could participate in any manner in a private securities transaction (PST) as defined in FINRA Rule 3280(e).<sup>14</sup>

The amendments permit CAB associated persons to participate in PSTs, subject to the same requirements that apply to non-CAB broker-dealer firms under FINRA Rule 3280 (Private Securities Transactions of an Associated Person).<sup>15</sup> Prior to participating in any PST, an associated person of a CAB must provide written notice to the CAB, describing in detail the proposed transaction and the person's proposed role therein, and stating whether the person will receive selling compensation in connection with the transaction.<sup>16</sup>

If the person will receive selling compensation, the CAB must advise the person in writing whether the CAB approves or disapproves the proposed transaction. If the CAB approves the person's participation in the transaction, the CAB must record the transaction in its books and records and supervise such participation as if the transaction were executed on behalf of the CAB. If the CAB disapproves the person's participation in the transaction, the person cannot participate in the transaction in any manner.<sup>17</sup>

If the person has not and will not receive selling compensation, the CAB must provide prompt written acknowledgement of the person's notice of the proposed transaction, and may, at its discretion, require the person to adhere to specified conditions in connection with the transaction.<sup>18</sup>

### **Compensation**

New CAB Rule 511 (Securities as Compensation) permits CABs to receive as compensation securities issued by a privately held issuer client on behalf of which the CAB provided services permitted under CAB Rule 016(c)(1), provided that the receipt, exercise or subsequent sale of such securities will not cause the CAB to engage in activities prohibited under CAB Rule 016(c)(2). The new rule codifies a 2019 FINRA staff interpretation of the CAB rules regarding compensation in the form of securities and the circumstances under which such compensation is permitted.<sup>19</sup>

**M&A Brokers Exemption**

Prior to the amendments, CAB Rule 016(c)(1)(G) permitted a CAB to effect securities transactions solely in connection with the transfer of ownership and control of a privately held company through the purchase, sale, exchange, issuance, repurchase or redemption of, or a business combination involving, securities or assets of the company to a buyer that will actively operate the company of the business conducted with the assets of the company, in accordance with the terms and conditions of an SEC rule, release, interpretation or “no-action” letter that permits a person to engage in such activities without having to register as a broker or dealer pursuant to Section 15(b) of the Exchange Act. The purpose of this provision was to allow CABs to engage in merger and acquisition activities to the same extent as unregistered persons who were relying on no-action relief provided by SEC staff in 2014 (M&A Brokers Letter).<sup>20</sup>

SEC staff withdrew the M&A Brokers Letter on March 29, 2023, the date on which a new registration exemption for M&A brokers under Section 15(b)(13) of the Securities Exchange Act of 1934 (Exchange Act) took effect.<sup>21</sup>

The amendments add a reference in CAB Rule 016(c)(1)(G) to the statutory exemption for M&A brokers. Under the amended rule, CABs are permitted to effect securities transactions in connection with the transfer of ownership and control of a privately held company in accordance with the terms and conditions of Section 15(b)(13) of the Exchange Act, or any provision of an SEC rule, release, interpretation or no-action letter that permits a person to engage “in the same or materially similar activities” without registering as a broker or dealer under the Exchange Act.

**EFFECTIVE DATE**

The amendments will be effective on March 25, 2026.

## Endnotes

- 1 See [FINRA Announces New “FINRA Forward” Initiatives to Support Members, Markets and Investors](#) (April 21, 2025).
- 2 See Securities Exchange Act Release No. 104806 (February 10, 2026), 91 FR 6954 (February 13, 2026) (Order Approving File No. SR-FINRA-2025-005).
- 3 Specifically, the rule defined “institutional investor” as any: (1) bank, savings and loan association, insurance company or registered investment company; (2) governmental entity or subdivision thereof; (3) employee benefit plan, or multiple employee benefit plans offered to employees of the same employer, that meet the requirements of Section 403(b) or Section 457 of the Internal Revenue Code and in the aggregate have at least 100 participants, but does not include any participant of such plans; (4) qualified plan, as defined in Section 3(a)(12)(C) of the Exchange Act, or multiple qualified plans offered to employees of the same employer, that in the aggregate have at least 100 participants, but does not include any participant of such plans; (5) other person (whether a natural person, corporation, partnership, trust, family office or otherwise) with total assets of at least \$50 million; (6) person meeting the definition of “qualified purchaser” as that term is defined in Section 2(a)(51) of the ICA; and (7) any person acting solely on behalf of any such institutional investor.  
  
The term “qualified purchaser” under the ICA includes, among others, any natural person, family-owned company or specified trust that owns not less than \$5,000,000 in investments, and any person, acting for its own account or the accounts of other qualified purchasers, who in the aggregate owns and invests on a discretionary basis, not less than \$25,000,000 in investments. 15 U.S.C. 80a-2(a)(51).
- 4 See CAB Rule 016(c)(1)(F).
- 5 See new CAB Rule 016(m).
- 6 Under ICA Rule 3c-5(a)(4), the term “Knowledgeable Employee” with respect to any Covered Company means any natural person who is: (i) an Executive Officer, director, trustee, general partner, advisory board member, or person serving in a similar capacity, of the Covered Company or an Affiliated Management Person of the Covered Company; or (ii) an employee of the Covered Company or an Affiliated Management Person of the Covered Company (other than an employee performing solely clerical, secretarial or administrative functions with regard to such company or its investments) who, in connection with his or her regular functions or duties, participates in the investment activities of such Covered Company, other Covered Companies, or investment companies the investment activities of which are managed by such Affiliated Management Person of the Covered Company, provided that such employee has been performing such functions and duties for or on behalf of the Covered Company or the Affiliated Management Person of the Covered Company, or substantially similar functions or duties for or on behalf of another company for at least 12 months. 17 CFR 270.3c-5.  
  
“Covered Company,” as defined in ICA Rule 3c-5, includes companies that would be investment companies under the ICA but for the exclusions provided by sections 3(c)(1) and 3(c)(7) of the ICA. 17 CFR 270.3c-5(a)(2), (a)(5), and (a)(6).
- 7 See 17 CFR 240.15l-1. Reg BI establishes a standard of conduct for broker-dealers and their associated persons when they make a recommendation to a retail customer of any securities transaction or investment strategy involving securities. See Regulation Best Interest: The Broker-Dealer Standard of Conduct, Securities Exchange Act Release No. 86031 (June 5, 2019), 84 FR 33318 (July 12, 2019).

- 8 See 17 CFR 240.17a-14. A broker-dealer making a recommendation to a retail investor of any securities transaction or investment strategy involving securities must provide a brief relationship summary prior to, or at the time of, the recommendation. See Form CRS Relationship Summary; Amendments to Form ADV, Securities Exchange Act Release No. 86032 (June 5, 2019), 84 FR 33492 (July 12, 2019).
- 9 See amended CAB Rule 016(c)(1)(F)(i).
- 10 A “control person” is a person who has the power to direct the management or policies of a company through ownership of securities, by contract, or otherwise. Control is presumed to exist if, before the transaction, the person has the right to vote or power to sell or direct the sale of 25 percent or more of a class of voting securities, or in the case of a partnership or limited liability company, has the right to receive upon dissolution or has contributed 25 percent or more the capital. See CAB Rule 016(c)(1)(F)(ii).
- 11 See amended CAB Rule 016(c)(1)(F)(ii).
- 12 See amended CAB Rule 016(c)(1)(F)(ii)b.
- 13 See amended CAB Rule 016(c)(1)(F)(ii)a.
- 14 FINRA Rule 3280(e) defines “private securities transaction” as any securities transaction outside the regular course or scope of an associated person’s employment with a member, including, though not limited to, new offerings of securities which are not registered with the Securities and Exchange Commission (SEC). The term excludes transactions subject to FINRA Rule 3210’s notification requirements, transactions among immediate family members for which no associated person receives any selling compensation, and personal transactions in investment company and variable annuity securities.
- 15 See amended CAB Rule 328.
- On January 22, 2026, FINRA filed a proposed rule change to adopt new FINRA Rule 3290 (Outside Activities Requirements) to address the outside activities of its member firms’ associated persons. Proposed FINRA Rule 3290 would replace current FINRA Rules 3270 and 3280. See [SR-FINRA-2026-001](#). If the new rule is approved by the SEC, FINRA expects to file a proposed rule change to update the CAB rules accordingly.
- 16 See FINRA Rule 3280(b).  
“Selling compensation” includes any compensation paid directly or indirectly from whatever source in connection with or as a result of the purchase or sale of a security, including, but not limited to, finder’s fees, securities or rights to acquire securities, rights of participation in profits, tax benefits, or dissolution proceeds, as a general partner or otherwise, and expense reimbursements. See FINRA Rule 3280(e)(2).
- 17 See FINRA Rule 3280(c).
- 18 See FINRA Rule 3280(d).
- 19 See [letter from Joseph P. Savage, FINRA, to Jonathan D. Wiley](#), The Forbes Securities Group, dated May 30, 2019.
- 20 See [M&A Brokers](#), 2014 SEC No-Act. Lexis 92 (January 31, 2014). See also Securities Exchange Act Release No. 76675 (December 17, 2015), 80 FR 79969, 79977 (December 23, 2015) (Notice of Filing of File No. SR-FINRA-2015-054).
- 21 15 U.S.C. 78o(b)(13). See also [letter](#) from Emily Westerberg Russell, Chief Counsel and Associate Director, SEC Division of Trading & Markets, to Faith Colish, *et al.* (March 29, 2023) (informing recipients of original M&A Brokers Letter that the staff was withdrawing the letter in light of the Exchange Act registration exemption for M&A brokers).

©2026. FINRA. All rights reserved. Regulatory Notices attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.