

Compensation Arrangements

Guidance Regarding the Application of FINRA Rules in Relation to the SEC No-Action Letter on Personal Services Entities

Effective Date: November 17, 2025

Summary

In November 2025, Securities and Exchange Commission (SEC) staff issued a no-action letter permitting registered representative-owned personal services entities to receive transaction-based compensation without broker-dealer registration, subject to conditions. This *Notice* provides guidance regarding the manner in which FINRA rules apply in relation to the no-action letter. This *Notice* does not apply new requirements beyond the no-action letter requirements. Members may apply this guidance to personal services entity arrangements entered into on or after November 17, 2025, the date upon which the no-action letter was issued.

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Background & Discussion

I. Regulatory Framework for Transaction-Based Compensation and Broker-Dealer Registration

The Securities Exchange Act of 1934 (Exchange Act) generally requires, absent an available exemption or exception, persons that effect transactions in securities for the account of others to register as

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Notice Type

- ▶ Guidance

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Registered Representatives
- ▶ Registration
- ▶ Senior Management

Key Topic

- ▶ Broker-Dealer Registration
- ▶ Communications With the Public
- ▶ Compensation Arrangements
- ▶ Outside Business Activities
- ▶ Personal Services Entities
- ▶ Qualification and Registration
- ▶ Recordkeeping
- ▶ Supervision
- ▶ Transaction-Based Compensation

Referenced Rules & Notices

- ▶ FINRA By-Laws, Article IV, Sec. 8 and Article V, Sec. 2
- ▶ FINRA Rules 1210, 1220, 1230, 2040, 2210, 2320, 2341, 3110, 3270, 3280, 4511 and 8210
- ▶ Exchange Act Section 15
- ▶ Exchange Act Rules 17a-3, 17a-4 and 17f-2
- ▶ Regulatory Notice 15-07
- ▶ Regulatory Notice 25-07

broker-dealers, with the receipt of transaction-based compensation (TBC) being a consideration in determining registration requirements.¹ SEC staff has in the past granted no-action relief relating to compensation arrangements between broker-dealers and unregistered entities that provide administrative and human resources services on behalf of their broker-dealer clients, including payroll and commission remittance to associated persons of such broker-dealers.²

II. 2025 SEC No-Action Letter

On November 17, 2025, SEC staff granted no-action relief that permits broker-dealers to pay TBC directly to personal services entities (PSEs) without separate PSE registration under the Exchange Act,³ provided that:

- ▶ Each owner of the PSE is a registered person of the broker-dealer and each of the registered representatives and registered principals at the PSE are registered with the same broker-dealer;
- ▶ The PSE's location is either designated as a branch office or as an Office of Supervisory Jurisdiction (OSJ) of the broker-dealer;
- ▶ Upon receiving instructions or approval from the broker-dealer, the PSE promptly distributes TBC to the registered representatives, though the PSE may retain a portion of such payments for its use in paying for its overhead and administrative expenses;
- ▶ The broker-dealer: maintains a bank account for paying TBC to its registered representatives who are also employees or independent contractors of the PSE and associated with the broker-dealer; instructs (or otherwise approves) the PSE regarding the size and timing of TBC to be paid to the registered representatives;⁴ and maintains records as required by Exchange Act Rules 17a-3 and 17a-4 regarding all compensation payments it makes to the PSE that include required details as to payments made to each registered representative; and
- ▶ The broker-dealer maintains policies and procedures designed to ensure that the conditions set forth in the 2025 No-Action Letter are satisfied.

Additionally, based on the 2025 SEC No-Action Letter, the broker-dealer and PSE must enter into a written servicing agreement that provides that:

- ▶ The broker-dealer is obligated to comply with all applicable federal, state and local regulations and registration and licensing requirements;
- ▶ The broker-dealer: has sole and exclusive control over the day-to-day securities-related activities of all of its associated persons; is solely responsible for hiring, proper registration, licensing, training and supervision of all of its registered representatives with respect to the broker-dealer's obligations under all applicable securities laws, rules and regulations; and will retain the exclusive right to discipline and terminate its associated persons;

- ▶ All books and records in the possession of the PSE that are maintained on behalf of the broker-dealer will be made available for inspection by the SEC, any self-regulatory organization (SRO) or any other regulatory authority with jurisdiction over the broker-dealer's business; and the broker-dealer will not assert that the existence of any agreement with the PSE in any way affects the ability of the SEC, any SRO or any other relevant regulatory authority to regulate, examine or discipline the broker-dealer or any of its associated persons for violations of applicable securities laws;
- ▶ The PSE will not itself engage in any securities-related activities that would require it to register as a broker-dealer and will not hold itself out as a broker-dealer; and
- ▶ To the extent the PSE employs any person who is not registered, such personnel will not be permitted to engage in any securities-related activities that would require them to become registered representatives of a broker-dealer and will only have clerical or ministerial involvement in securities transactions; and the PSE will not pay any bonuses to unregistered personnel that are tied to TBC paid by the broker-dealer to the PSE.

III. Guidance Regarding the Application of FINRA Rules Under the 2025 No-Action Letter

FINRA is providing the following guidance regarding the manner in which FINRA rules apply in relation to the 2025 No-Action Letter. This guidance does not impose new obligations but clarifies the application of existing FINRA rule requirements under the conditions of the 2025 No-Action Letter.

Compensation Payments

The 2025 No-Action Letter provides that, consistent with its conditions, members may pay TBC to an entity that is not registered as a broker-dealer, and that associated persons of a member may receive TBC from entities other than the member with which they are associated.⁵ FINRA Rules 2040 (Payments to Unregistered Persons), 2320 (Variable Contracts of an Insurance Company) and 2341 (Investment Company Securities) are the FINRA rules most directly related to the relief provided under the 2025 No-Action Letter.

FINRA Rule 2040

Rule 2040 generally prohibits members from paying TBC to any person that is not registered as a broker-dealer under Section 15(a) of the Exchange Act but, by reason of receipt of any such payments and the related activities, is required to be registered.⁶ However, the rule permits such payments if a member determines

that the payment of any such compensation to an unregistered person and the related activities would not require such person to register as a broker-dealer under the Exchange Act and reasonably supports their determination.⁷ Members can derive support for their determination by, among other things, reasonably relying on no-action letters or interpretations from SEC staff that apply to their facts and circumstances.⁸

FINRA Rules 2320 and 2341

Rules 2320 and 2341 address a complementary concern by generally prohibiting associated persons of a member from accepting any compensation *in connection with* the sale and distribution of variable contracts or investment company securities, respectively, from anyone other than the member with which the persons are associated.⁹ These rules are intended to address conflicts of interest and supervisory issues that may arise in connection with the sale or distribution of such products and the related compensation. However, Rules 2320 and 2341 permit a non-member company to pay such compensation directly to associated persons of the member provided that the member, among other things, relies on an appropriate rule, regulation, interpretive release, interpretive letter or SEC no-action letter that applies to the specific fact situation of the arrangement.¹⁰

In order for associated persons of a member to accept compensation directly from a non-member company in connection with the sale of variable contracts or investment company securities, Rules 2320(g) and 2341(l) also require that: (1) the arrangement is agreed to by the member; (2) the receipt by associated persons of such compensation is treated as compensation received by the member for purposes of FINRA rules; and (3) the member maintains records specified in Rules 2320(g)(3) or 2341(l)(3), as applicable.¹¹

Members that wish to pay TBC to a PSE pursuant to the 2025 No-Action Letter, and associated persons who wish to receive TBC from the PSE, will satisfy Rules 2040, 2320 and 2341 by complying with the conditions of the 2025 No-Action Letter.

Supervision

The 2025 No-Action Letter requires broker-dealers to be solely responsible for the supervision of all of their registered representatives with respect to the broker-dealer's obligations under all applicable securities laws, rules and regulations.¹² The 2025 No-Action Letter also requires broker-dealers to maintain policies and procedures designed to ensure that the conditions set forth in the 2025 No-Action Letter are satisfied.¹³

FINRA Rule 3110 (Supervision) requires members to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable

federal securities laws and regulations and FINRA rules.¹⁴ The rule also requires members to establish, maintain and enforce written supervisory procedures that are reasonably designed to comply with such laws, regulations and rules.¹⁵

Members that wish to pay TBC to a PSE pursuant to the 2025 No-Action Letter should review and update their existing supervisory systems and written procedures under Rule 3110 to address the conditions set forth in the 2025 No-Action Letter. FINRA is, in particular, highlighting the following areas:¹⁶

- ▶ **Registration:** Each owner of the PSE must be a registered person of the member and each of the registered representatives and registered principals of the PSE must be registered with the same member.
- ▶ **Control by the Member:** The member must determine which of the PSE's personnel are associated persons of the member and maintain sole and exclusive control over the day-to-day securities-related activities of such persons,¹⁷ including hiring, qualification, registration, licensing, training, supervision, discipline and termination, as well as approving all compensation payments relating to their securities activities.¹⁸
- ▶ **PSE's Business Activities:** The PSE passes through all the TBC it receives, though it may retain compensation to cover its overhead and administrative expenses, and the PSE must not itself engage in any securities-related activities that would require it to register as a broker-dealer and must not hold itself out as a broker-dealer.¹⁹
- ▶ **Limitations on Unregistered Personnel:** Unregistered PSE personnel may perform only clerical or ministerial tasks in connection with securities transactions and must not engage in securities activities that would require registration or receive TBC (or related bonuses), thus ensuring that only properly registered persons perform tasks that require registration and receive such compensation.
- ▶ **Payment Administration and Agreements:** The member must maintain a bank account for paying TBC to its registered representatives, enter into written servicing agreements with PSEs and instruct (or otherwise approve) the PSE regarding the size and timing of TBC payments to be paid to the registered representatives.
- ▶ **Recordkeeping and Regulatory Access:** The member must: maintain records as required under the Exchange Act regarding all compensation payments it makes to the PSE with required details as to payments made to each registered representative; ensure full regulatory access to books and records in the possession of the PSE that are maintained on behalf of the member; and maintain policies and procedures designed to ensure that all conditions set forth in the 2025 No-Action Letter are satisfied—without asserting that PSE arrangements limit regulatory authority.

Communications With the Public

The 2025 No-Action Letter provides that the broker-dealer has sole responsibility to supervise its associated persons and that the PSE cannot hold itself out as a broker-dealer.²⁰

Even though a PSE cannot hold itself out as a broker-dealer, associated persons of a member who are employed by the PSE may communicate with customers in writing regarding the member's securities business.²¹ In accordance with FINRA Rule 2210 (Communications With the Public), such communications must be fair, balanced and based on principles of fair dealing and good faith, and may not contain false, misleading or exaggerated statements.²² Rule 2210 also requires members to ensure that any such communications concerning securities activities by the member's associated persons who are employed by the PSE clearly disclose that such securities activities are conducted through the member.²³

Recordkeeping

The incoming no-action request submitted to SEC staff represents that the broker-dealer will maintain records regarding compensation payments it makes to the PSE and will provide required details as to payments made to each registered representative.²⁴ It also represents that all books and records in the possession of the PSE that are maintained on behalf of the broker-dealer will be made available for inspection by the SEC, any SRO or any other regulatory authority with jurisdiction over the broker-dealer's business.²⁵ Members are also reminded of their responsibility to make and keep current and preserve records, including certain records associated with the 2025 No-Action Letter, for compliance with Rules 17a-3 and 17a-4 under the Exchange Act.²⁶

IV. Conclusion

The 2025 No-Action Letter establishes a clear framework for members to pay TBC directly to PSEs, addressing longstanding uncertainty and industry demand while maintaining robust supervisory controls. This *Notice* provides guidance regarding the manner in which FINRA rules apply in relation to the 2025 No-Action Letter without imposing new obligations. As provided in the 2025 No-Action Letter, members must establish comprehensive written policies and procedures as part of PSE arrangements to ensure that the conditions set forth in the 2025 No-Action Letter are satisfied.

Endnotes

- 1 TBC generally means “compensation tied to the successful completion of a securities transaction.” [Order Exempting the Fed. Rsv. Bank of NY, Maiden Lane LLC & the Maiden Lane Com. Mortg. Backed Sec. Trust 2008-1 from Broker-Dealer Registration](#), Securities Exchange Act Release No. 61884 (April 9, 2010).
- 2 See, e.g., [Letter from Brian A. Bussey](#), Asst. Chief Counsel, SEC, to David S. Huntington, Paul, Weiss, Rifkind, Wharton & Garrison LLP, dated December 4, 2007 (granting no-action relief for an unregistered entity that is an associated person of a broker-dealer to provide professional employer services, including payroll services, to its broker-dealer clients without registering as a broker-dealer under Section 15(b) of the Exchange Act); [Letter from Joshua Kans](#), Special Counsel, SEC, to Randy K. Nestel, General Counsel, Investacorp Group, Inc. and Investacorp, Inc., dated September 26, 2003 (granting no-action relief for an unregistered entity to provide professional employer services, including payroll services, to its broker-dealer affiliate without registering as a broker-dealer under Section 15(b) of the Exchange Act); [Letter from Daniel P. Fisher](#), Special Counsel, Office of Chief Counsel, SEC, to David S. Mitchell, Cadwalader, Wickersham & Taft, dated August 14, 2002 (granting no-action relief for an unregistered entity that is not an associated person of a broker-dealer to provide professional employer services, including payroll services, to its broker-dealer clients without registering as a broker-dealer under Section 15(b) of the Exchange Act).
- 3 See [Letter from Emily Westerberg Russell](#), Chief Counsel, Division of Trading and Markets, SEC, to Clifford Kirsch, Partner, Eversheds Sutherland (US) LLP, dated November 17, 2025 (2025 No-Action Letter). Some registered representatives establish PSEs to receive compensation for certain financial services (e.g., investment advisory or insurance services) and obtain tax and succession planning benefits. As part of the [FINRA Forward](#) initiative, [Regulatory Notice 25-07](#) (April 14, 2025) sought comment on compensation arrangements between broker-dealers and PSEs. FINRA received more than 20 comments concerning PSEs in response to the [Notice](#).
- 4 The 2025 No-Action Letter provides that such instruction (or approval) must be specific to the payment(s) made to each registered person. In addition, registered principals who are also employees or independent contractors of the PSE may make recommendations to the broker-dealer regarding the size and timing of TBC to be paid to registered persons, but the broker-dealer must have final discretion regarding the size and timing of such payments. See [2025 No-Action Letter](#), *supra* note 3, at 6.
- 5 See *id.*
- 6 Rule 2040(a)(1). See also [Regulatory Notice 15-07](#) (March 20, 2015) (stating that the rule aligns “with Section 15(a) of the [Exchange Act] and its related guidance to determine whether registration as a broker-dealer is required for persons to receive transaction-[based] compensation and to engage in related activities”).
- 7 Rule 2040.01. Under Rule 2040.01, the member’s determination must be reasonable under the circumstances and should be reviewed periodically if payments to the unregistered person are ongoing in nature. In addition, members must maintain books and records that reflect the member’s determination.

- 8 *Id.*; see also *supra* note 2 (providing examples of no-action relief relating to payments of compensation by broker-dealers to unregistered persons).
- 9 Rule 2320(g); Rule 2341(l).
- 10 Rule 2320(g)(1); Rule 2341(l)(1). See, e.g., [Letter from Joseph Furey](#), Asst. Chief Counsel, Division of Trading and Markets, SEC, to Eric A. Arnold, Sutherland Asbill & Brennan LLP, Ira Hammerman, Securities Industry and Financial Markets Association, and Carl B. Wilkerson, American Council of Life Insurers, dated April 23, 2013 (granting no-action relief for insurance agencies to enter into insurance networking arrangements with registered broker-dealers for the offer and sale of variable products and to make certain TBC payments, without the insurance agencies registering as broker-dealers under Section 15(b) of the Exchange Act); Securities Exchange Act Release No. 8389 (August 29, 1968), [33 FR 13005](#), 13006 (September 14, 1968) (permitting an insurance company to pay sales commissions relating to the sale of variable annuities directly to the associated persons of a broker-dealer subject to specified conditions).
- 11 With respect to the recordkeeping requirement, Rules 2320(g)(3) and 2341(l)(3) provide that members must maintain records of all compensation received by the member or its associated persons from offerors, except records of non-cash compensation from an offeror permitted under Rules 2320(g)(4)(A)-(B) and 2341(l)(5)(A)-(B). See also Rules 2320(b)(3)(E) and 2341(b)(1)(E) (definitions of “offeror” under each rule).
- 12 [2025 No-Action Letter](#), *supra* note 3, at 7.
- 13 *Id.* at 6.
- 14 Rule 3110(a).
- 15 Rule 3110(b).
- 16 FINRA is not imposing any additional supervisory requirements beyond those identified in the 2025 No-Action Letter. Members should refer to the 2025 No-Action Letter for the specific conditions that must be addressed in their policies and procedures. See [2025 No-Action Letter](#), *supra* note 3.
- 17 Under FINRA rules, associated persons include, among others, natural persons engaged in the investment banking or securities business who are directly or indirectly controlled by a member. See FINRA By-Laws, Art. I(rr) (defining “person associated with a member” and “associated person of a member”).
- 18 With respect to qualification and registration, members must ensure that associated persons are appropriately qualified and registered with FINRA unless they are exempt from registration (e.g., associated persons whose functions are solely and exclusively clerical or ministerial). See FINRA Rules 1210 (Registration Requirements), 1220 (Registration Categories) and 1230 (Associated Persons Exempt from Registration). Members must also determine whether unregistered PSE personnel must be fingerprinted under Exchange Act Rule 17f-2. In general, Rule 17f-2 requires broker-dealer personnel to be fingerprinted. However, the rule exempts from fingerprinting those broker-dealer personnel who: (1) are not engaged in the sale of securities; (2) do not regularly have access to the keeping, handling or processing of securities, monies or the original books and records relating to the securities or monies; and (3) do not have direct supervisory responsibility over persons who sell securities or have access to securities, monies or the original books and records. See Exchange Act Rule 17f-2(a)(1)(i).

- 19 However, the PSE is not precluded from engaging in other business activities (e.g., insurance or advisory business). To the extent that registered representatives use PSEs to engage in other business activities, Form U4 (Uniform Application for Securities Industry Registration or Transfer) and FINRA Rules 3270 (Outside Business Activities of Registered Persons) and 3280 (Private Securities Transactions of an Associated Person) impose specified requirements for registered persons engaging in other business activities. On January 22, 2026, FINRA filed a proposed rule change with the SEC that would delete Rules 3270 and 3280 and replace those rules with FINRA Rule 3290 (Outside Activities Requirements). See Securities Exchange Act Release No. 104746 (January 29, 2026), [91 FR 5003](#) (February 3, 2026) (Notice of Filing of File No. SR-FINRA-2026-001).
- 20 [2025 No-Action Letter](#), *supra* note 3, at 7.
- 21 In addition, as noted above, the PSE may conduct other business activities (e.g., insurance or advisory business) and associated persons may conduct such other business through the PSE. See *supra* note 19.
- 22 See generally Rule 2210(d).
- 23 See Rule 2210(d)(3) (requiring that all retail communications and correspondence prominently disclose the name of the member; reflect any relationship between the member and any non-member or individual who is also named; and if the communication or correspondence includes other names, reflect which products or services are being offered by the member).
- 24 See [2025 No-Action Letter](#), *supra* note 3, at 6. The 2025 No-Action Letter conditions relief based on the representations in the no-action request. Exchange Act Rule 17a-3 requires broker-dealers to maintain a record for each associated person listing each purchase and sale of a security attributable to that person for compensation purposes, along with the amount of compensation (if monetary) or a description (if non-monetary). See Exchange Act Rule 17a-3(a)(19)(i). In lieu of making this record, a broker-dealer may elect to produce the required information promptly upon request of a representative of a securities regulatory authority. See *id.* Exchange Act Rule 17a-3 also requires broker-dealers to maintain a record of all agreements pertaining to the relationship between each associated person and the broker-dealer, including summaries of compensation arrangements or plans and commission and concession schedules. See Exchange Act Rule 17a-3(a)(19)(ii). If an associated person's compensation is based on factors other than remuneration per trade, this record must include the method by which such person's compensation is determined. See *id.*
- 25 See [2025 No-Action Letter](#), *supra* note 3, at 7. See also FINRA Rule 8210.01 (Provision of Information and Testimony and Inspection and Copying of Books) (Rule 8210 states "that a FINRA member, associated person, or person subject to FINRA's jurisdiction must make available its books, records or accounts when these books, records or accounts are in the possession of another person or entity . . . but the FINRA member, associated person or person subject to FINRA's jurisdiction controls or has a right to demand them.").
- 26 See also FINRA Rule 4511 (General Requirements).

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