OMB APPROVAL
OMB Number:.... 3235-0045
Estimated average burden
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. * SR 2026 - * 019

Amendment No. (req. for Amendments *)

Filing by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
✓	☐	☐	✓	☐	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

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

Proposed Rule Change to Amend FINRA Rule 4522 (Periodic Security Counts, Verifications and Comparisons) to Simplify Position Statement and Reconciliation Requirements for Certain Alternative Investments

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 * Adam

Last Name * Arkel

Title * Associate General Counsel

E-mail * adam.arkel@finra.org

Telephone * (202) 728-6961

Fax

Signature

Pursuant to the requirements of the Securities Exchange of 1934, Financial Industry Regulatory Authority has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 08/25/2026

By Philip Shaikun
(Name *)

Vice President & Associate General Counsel
(Title *)

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

Philip Shaikun Digitally signed by Philip Shaikun
Date: 2026.08.25 11:38:35 -04'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View FINRA-2026-019 19b-4.docx	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 * Add Remove View FINRA-2026-019 Exhibit 1.docx	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 Advanced Notice by Clearing Agencies * Add Remove View	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 2- Notices, Written Comments, Transcripts, Other Communications Add Remove View	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 Sent As Paper Document
Exhibit 3 - Form, Report, or Questionnaire Add Remove View	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 Sent As Paper Document
Exhibit 4 - Marked Copies Add Remove View	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 FINRA-2026-019 Exhibit 5.docx	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 Add Remove View	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 "SEA" 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 that would simplify position statement and reconciliation requirements for certain alternative investments. Specifically, the proposed rule change would amend FINRA Rule 4522 (Periodic Security Counts, Verifications and Comparisons) to except uncertificated investments in unregistered investment funds from the requirements of paragraph (b)(1) of the rule, as further set forth in the proposed rule change.

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 FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice.

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

(a) Purpose

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[1] 15 U.S.C. 78s(b)(1).

<u>Security Count and Verification Challenges Faced by Firms Offering Alternative Investments</u>

Members that offer various types of alternative investments to their customers have sought relief from some of the longstanding count and verification requirements under SEA Rule 17a-13[2] (Quarterly security counts to be made by certain exchange members, brokers, and dealers) and, related to these, a number of requirements under FINRA Rule 4522 (Periodic Security Counts, Verifications and Comparisons) that supplement requirements under the SEC rule.

Broadly, SEA Rule 17a-13 sets forth detailed requirements for broker-dealers that maintain custody of securities, on a quarterly basis, to among other things conduct physical examinations and counts of the securities they hold, verify the securities, and compare the results of their counts and verifications. The SEC rule requires the broker-dealer in part to record on its books and records all unresolved differences in a security count difference account no later than seven business days after the date of each required quarterly security examination, count and verification. FINRA Rule 4522 works in tandem with the provisions of SEA Rule 17a-13 by setting forth requirements on carrying or clearing firms to receive position statements no less than once per month, to reconcile all such securities, to report differences to the contra organization, and to promptly resolve such differences.

Many alternative investments currently do not fit readily within the framework of the specific count and verification requirements as set forth in SEA Rule 17a-13 and FINRA Rule 4522. For example, members have pointed out that because in some

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2 17 CFR 240.17a-13 (hereinafter "SEA Rule 17a-13").

instances customers' ownership interests in certain alternative investments are represented in terms of the balance of the investor's capital account, rather than in number of shares or other units, issuers of these investments are not able to provide current quarterly position information. As a result, it is difficult for members to comply with the express terms of SEA Rule 17a-13, as well as FINRA Rule 4522, in particular paragraph (b)(1) of that rule, which requires more frequent (not less than monthly) receipt of position statements and related comparisons and reconciliations.[3] Further, members have also stated that issuers of other types of alternative investments, beyond those represented by the balance of the investor's capital account, such as those represented by number of shares or units, also are not always able to provide current position information or position statements to the members with the higher frequency required by FINRA Rule 4522(b)(1). As part of FINRA's rule modernization,[4] members have asked for relief from these requirements for alternative investments.

Recent SEC Staff No-Action Letter

The Commission staff recently issued a no-action letter to a broker-dealer (the

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3 Specifically, paragraph (b)(1) of FINRA Rule 4522 currently requires each carrying or clearing member that is subject to the requirements of SEA Rule 17a-13 to "[r]eceive position statements as frequently as good business practice requires, but no less than once per month with respect to securities held by clearing corporations, other organizations or custodians. Each such member shall at least once per month reconcile all such securities and money balances by comparison of the clearing corporations' or custodians' position statements to the member's books and records and promptly report differences to the contra organization and such differences shall be promptly resolved by both. Where there is a higher volume of activity, good business practice may require a more frequent exchange of statements and their reconciliation . . ."

4 See, e.g., Regulatory Notice 25-04 (March 2025) (FINRA Launches Broad Review to Modernize Rules Regarding Member Firms and Associated Persons).

"Letter")[5] stating that the staff will not recommend enforcement action to the Commission under SEA Rule 17a-13 if the broker-dealer does not record on its books and records all unresolved differences within seven business days after the date of each required quarterly securities count and verification, as long as it performs the securities count, verification, and comparison with respect to the uncertificated alternative investments known as "capital balance funds," as these products are described in the Letter, under the circumstances listed in the Letter.[6]

Achieving Greater Clarity under FINRA Rules

To align with the SEC's specified relief under SEA Rule 17a-13, and to provide greater clarity for members and their customers that participate in alternative investments, as an interim measure, FINRA has published[7] guidance to firms, expressing FINRA's view that compliance with all circumstances set out in the Letter, as to the capital balance funds described in the Letter, is deemed to comply with the relevant requirements of

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5 See Letter regarding Capital Balance Fund Reconciliations from Raymond A. Lombardo, Assistant Director, SEC Division of Trading & Markets, to Mark M. Attar of Stradley Ronon Stevens & Young, LLP and counsel to Raymond James & Associates, Inc., dated January 6, 2026, https://www.sec.gov/files/tm/no-action/raymond-james-associates-inc-010626.pdf.

6 In general terms, the circumstances in the Letter include: maintaining a record of the position statement reporting schedule for each capital balance fund issuer; seeking explanations for any deviations from the schedule; reconciling and updating books and records within five business days of receipt of a position statement for a capital balance fund; identifying on customer statements the last reported value for capital balance funds and the date such value was reported to the broker-dealer; and disclosing to customers that the capital balance fund value reported on the customer statement is based on information from the issuer and may not be current or realizable upon liquidation.

7 See FAQ "FINRA Rule 4522(b)(1) and Certain Capital Balance Funds," available at: https://www.finra.org/rules-guidance/guidance/faqs/finra-rule-4522b1-and-certain-capital-balance-funds.

FINRA Rule 4522(b)(1) with respect to the capital balance funds.

However, to address more broadly the difficulty firms have in receiving position statements no less than monthly from issuers of uncertificated investments in unregistered investment funds, as well as the associated comparison and reconciliation requirements thereunder, the proposed rule change would except from paragraph (b)(1) of FINRA Rule 4522 all uncertificated investments in unregistered investment funds as set forth in the proposed rule language.[8] Specifically, the proposed exception would apply where ownership by the member or its customers of such investments is directly recorded on the issuer's ownership registry maintained by the issuer or its agent or, if no such registry exists, is directly recognized by the issuer.[9] As such, FINRA proposes to revise the first sentence of paragraph (b)(1) to state that each carrying or clearing member subject to the requirements of SEA Rule 17a-13 shall "[r]eceive position statements as frequently as good business practice requires, but no less than once per month with respect to securities held by clearing corporations, other organizations or custodians, except that this requirement shall not apply to uncertificated investments in unregistered investment funds, where ownership by the member or its customers of such investments is directly recorded on the issuer's ownership registry maintained by the issuer or its

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8 See the proposed amendments to paragraph (b)(1) in Exhibit 5.

9 FINRA notes, however, that members will continue to be subject to FINRA Rule 4522(b), which states: "Each carrying or clearing member subject to the requirements of SEA Rule 17a-13 shall make more frequent counts, examinations, verifications, comparisons and entries where prudent business practice would so require." This requirement would continue to apply to uncertificated investments in an unregistered fund or security excepted from FINRA Rule 4522(b)(1) by the proposed amendments, and firms should have policies and procedures in place to ensure compliance with this provision of the rule.

agent or, if no such registry exists, is directly recognized by the issuer." In the interest of clarity, FINRA notes that this proposed amendment to the first sentence of paragraph (b)(1) does not affect the applicability of SEA Rule 17a-13, in particular the requirement to conduct at least quarterly the specified securities counts and verifications pursuant to that rule. In that regard, FINRA proposes to revise the second sentence of paragraph (b)(1) to add the phrase ". . . or at least once per quarter with respect to uncertificated investments excepted from the monthly position statement requirement under this paragraph (b)(1) . . .", so the complete sentence as amended would read: "Each such member shall at least once per month, or at least once per quarter with respect to uncertificated investments excepted from the monthly position statement requirement under this paragraph (b)(1), reconcile all such securities and money balances by comparison of the clearing corporations' or custodians' position statements to the member's books and records and promptly report difference to the contra organization and such differences shall be promptly resolved by both."[10]

FINRA believes that adopting the proposed exception for uncertificated investments from the once-per-month cadence for position statements will help to give members greater clarity with regard to the treatment of uncertificated investments and to reduce unnecessary compliance burdens given the difficulties involved in receiving the position statements within the express parameters of the rule as currently written.[11] This

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10 See the proposed amendments to paragraph (b)(1) in Exhibit 5.

11 FINRA notes that the proposed rule change would not impact members that are funding portals or that have elected to be treated as capital acquisition brokers ("CABs"), given that neither funding portals nor CABs are subject to FINRA Rule 4522.

in turn may encourage members to offer alternative investments, thereby expanding the investment opportunities available to customers. At the same time, the proposed rule change incorporates the quarterly verification requirements under SEA Rule 17a-13 and as such maintains investor protections.[12] Further, FINRA believes the proposed rule change would help align FINRA Rule 4522 with the no-action relief granted by the Commission staff.

As noted in Item 2 of this filing, if the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[13] which requires, among other things, that FINRA rules 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 exception in the rule change will help to give members greater clarity with regard to the treatment of uncertificated alternative investments and to reduce unnecessary compliance burdens given the difficulties involved in receiving the position statements within the express parameters of Rule 4522 as currently written. This may

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12 Uncertificated investments in unregistered investment funds are typically offered by issuers, commonly known as private investment companies, venture capital funds or hedge funds, relying on the exceptions from the definition of "investment company" set forth in Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act. 15 U.S.C. 80a-3(c)(1) and 15 U.S.C. 80a-3(c)(7). FINRA understands owners of these products are mostly large institutional investors. See the Economic Impact Assessment in Item 4 of this filing.

13 15 U.S.C. 78o-3(b)(6).

encourage members to offer more customers the opportunity to participate in these investments, thereby serving the public interest by promoting investor choice.

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.

Economic Impact Assessment

FINRA has undertaken an economic impact assessment to analyze the potential economic impacts of the proposed rule change, including anticipated costs, benefits, and distributional and competitive effects, relative to current baseline, and the alternatives considered in assessing how best to meet FINRA's regulatory objectives.

Regulatory Need

FINRA Rule 4522 works in tandem with the provisions of SEA Rule 17a-13 to protect investors by ensuring that, among other things, member firms maintain accurate records of securities in their possession. As discussed above, however, many alternative investments do not fit readily within the framework of the specific count and verification requirements of these rules. The proposed rule change, together with the relief and requirements specified by the SEC, would reduce the particular compliance challenges related to uncertificated investments while ensuring that member firms maintain accurate records of these securities in their possession.

Economic Baseline

The proposed rule change would impact all carrying or clearing members,[14] particularly those that custody alternative investments for customers, specifically uncertificated investments in unregistered investment funds as is further set forth in the proposed rule change. FINRA does not know the exact number of these carrying and clearing members or the scope of the uncertificated investments in unregistered investment funds. Using information provided by firms in FOCUS Form Custody, FINRA estimates that there are approximately 70 carrying and clearing firms that currently carry U.S. or foreign private funds and potentially carry these products. FINRA understands such products are mostly owned by large institutional investors. FINRA also understands that the relief specified in the Letter would not apply beyond the facts and circumstances specified in the Letter and that the proposed rule change would provide relief and greater regulatory clarity more broadly with regard to uncertificated investments in unregistered investment funds. The number of members that currently offer uncertificated investments in unregistered investment funds, including the products specified in the Letter, and how these members comply with the current rule, are not known with specificity by FINRA.

Economic Impacts

The proposed rule change is expected to provide direct and indirect benefits to carrying or clearing members with regard to the treatment of uncertificated investments in unregistered investment funds. Members that currently offer investment products

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[14] See Section 2.6 of the FINRA 2025 Industry Snapshot, available at: https://www.finra.org/media-center/reports-studies/2025-industry-snapshot.

within the scope of the proposed exception, and have difficulty meeting the current FINRA Rule 4522 requirements for such funds, will benefit from reduced regulatory burden, compliance uncertainty and associated costs and legal risks. The amount of reduction in regulatory burden and associated costs would depend on the scope and magnitude of activity across products covered by the proposed rule change, and the members' practices and procedures for complying with the current rule.

Members that do not currently offer these investment products may begin to offer them if the relief provided by the proposed rule change is material enough. Doing so may lead to expanded access to such alternative investment products. The proposed rule change is also expected to provide indirect benefits to these members' customers by potentially increasing investment options and portfolio diversification opportunities. The proposed rule change maintains investor protections with the additional requirement on recording or recognizing ownership.

Members that currently offer these products and are in compliance with the current rule could continue with their current activities. FINRA expects, however, that these members as well as members that begin to offer these products and could meet current rule requirements would nevertheless make use of the proposed exception. In particular, these members may reduce the frequency of verification to at least quarterly after determining that prudent business practice for specific products does not require monthly verifications. FINRA does not believe that this will have any impact on the protections currently provided under the baseline.

Members that would choose to take advantage of the proposed exception would need to familiarize themselves with the proposed rule amendment and make any necessary changes to their procedures, protocols, and monitoring systems, to ensure compliance. Members will mostly incur these one-time costs if the benefits from doing so are sufficient.

Anticipated Competitive Effects

Regarding competitive effects, the relief stemming from the proposed rule change would be available to all members that meet the specified conditions of the proposal. Relative to the baseline with the relief specified in the Letter, the proposed rule change may enhance competition among members in providing these alternative investments and across various unregistered investment funds. The impacts on competition for customers among members would depend on the magnitude of the direct cost savings and the extent to which those savings would be shared with clients.

Alternatives Considered

The proposed rule change provides relief requested by member firms as part of rule modernization. The proposal builds on the relief and requirements in the Letter. No significant alternatives were considered.

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

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.[15]

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15 15 U.S.C. 78s(b)(2).

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)

Not applicable.

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.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2026-019)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 4522 (Periodic Security Counts, Verifications and Comparisons) to Simplify Position Statement and Reconciliation Requirements for Certain Alternative Investments

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. 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 amend FINRA Rule 4522 (Periodic Security Counts, Verifications and Comparisons) to simply position statement and reconciliation requirements for certain alternative investments. Specifically, the proposed rule change would amend Rule 4522 to except uncertificated investments in unregistered investment funds from the requirements of paragraph (b)(1) of the rule, as further set forth in the proposed rule change.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

The text of the proposed rule change is available on FINRA's website at http://www.finra.org and at the principal office of FINRA.

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

Security Count and Verification Challenges Faced by Firms Offering Alternative Investments

Members that offer various types of alternative investments to their customers have sought relief from some of the longstanding count and verification requirements under SEA Rule 17a-13[3] (Quarterly security counts to be made by certain exchange members, brokers, and dealers) and, related to these, a number of requirements under FINRA Rule 4522 (Periodic Security Counts, Verifications and Comparisons) that supplement requirements under the SEC rule.

Broadly, SEA Rule 17a-13 sets forth detailed requirements for broker-dealers that maintain custody of securities, on a quarterly basis, to among other things conduct physical examinations and counts of the securities they hold, verify the securities, and

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[3] 17 CFR 240.17a-13 (hereinafter "SEA Rule 17a-13").

compare the results of their counts and verifications. The SEC rule requires the broker-dealer in part to record on its books and records all unresolved differences in a security count difference account no later than seven business days after the date of each required quarterly security examination, count and verification. FINRA Rule 4522 works in tandem with the provisions of SEA Rule 17a-13 by setting forth requirements on carrying or clearing firms to receive position statements no less than once per month, to reconcile all such securities, to report differences to the contra organization, and to promptly resolve such differences.

Many alternative investments currently do not fit readily within the framework of the specific count and verification requirements as set forth in SEA Rule 17a-13 and FINRA Rule 4522. For example, members have pointed out that because in some instances customers' ownership interests in certain alternative investments are represented in terms of the balance of the investor's capital account, rather than in number of shares or other units, issuers of these investments are not able to provide current quarterly position information. As a result, it is difficult for members to comply with the express terms of SEA Rule 17a-13, as well as FINRA Rule 4522, in particular paragraph (b)(1) of that rule, which requires more frequent (not less than monthly) receipt of position statements and related comparisons and reconciliations.[4] Further, members

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4 Specifically, paragraph (b)(1) of FINRA Rule 4522 currently requires each carrying or clearing member that is subject to the requirements of SEA Rule 17a-13 to "[r]eceive position statements as frequently as good business practice requires, but no less than once per month with respect to securities held by clearing corporations, other organizations or custodians. Each such member shall at least once per month reconcile all such securities and money balances by comparison of the clearing corporations' or custodians' position statements to the member's books and records and promptly report differences to the contra organization and such differences shall be promptly resolved by both. Where

have also stated that issuers of other types of alternative investments, beyond those represented by the balance of the investor's capital account, such as those represented by number of shares or units, also are not always able to provide current position information or position statements to the members with the higher frequency required by FINRA Rule 4522(b)(1). As part of FINRA's rule modernization,[5] members have asked for relief from these requirements for alternative investments.

Recent SEC Staff No-Action Letter

The Commission staff recently issued a no-action letter to a broker-dealer (the "Letter")[6] stating that the staff will not recommend enforcement action to the Commission under SEA Rule 17a-13 if the broker-dealer does not record on its books and records all unresolved differences within seven business days after the date of each required quarterly securities count and verification, as long as it performs the securities count, verification, and comparison with respect to the uncertificated alternative investments known as "capital balance funds," as these products are described in the Letter, under the circumstances listed in the Letter.[7]

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there is a higher volume of activity, good business practice may require a more frequent exchange of statements and their reconciliation . . ."

5 See, e.g., Regulatory Notice 25-04 (March 2025) (FINRA Launches Broad Review to Modernize Rules Regarding Member Firms and Associated Persons).

6 See Letter regarding Capital Balance Fund Reconciliations from Raymond A. Lombardo, Assistant Director, SEC Division of Trading & Markets, to Mark M. Attar of Stradley Ronon Stevens & Young, LLP and counsel to Raymond James & Associates, Inc., dated January 6, 2026, https://www.sec.gov/files/tm/no-action/raymond-james-associates-inc-010626.pdf.

7 In general terms, the circumstances in the Letter include: maintaining a record of the position statement reporting schedule for each capital balance fund issuer; seeking explanations for any deviations from the schedule; reconciling and updating books and records within five business days of receipt of a position

Achieving Greater Clarity under FINRA Rules

To align with the SEC's specified relief under SEA Rule 17a-13, and to provide greater clarity for members and their customers that participate in alternative investments, as an interim measure, FINRA has published[8] guidance to firms, expressing FINRA's view that compliance with all circumstances set out in the Letter, as to the capital balance funds described in the Letter, is deemed to comply with the relevant requirements of FINRA Rule 4522(b)(1) with respect to the capital balance funds.

However, to address more broadly the difficulty firms have in receiving position statements no less than monthly from issuers of uncertificated investments in unregistered investment funds, as well as the associated comparison and reconciliation requirements thereunder, the proposed rule change would except from paragraph (b)(1) of FINRA Rule 4522 all uncertificated investments in unregistered investment funds as set forth in the proposed rule language.[9] Specifically, the proposed exception would apply where ownership by the member or its customers of such investments is directly recorded on the issuer's ownership registry maintained by the issuer or its agent or, if no such registry exists, is directly recognized by the issuer.[10] As such, FINRA proposes to revise

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statement for a capital balance fund; identifying on customer statements the last reported value for capital balance funds and the date such value was reported to the broker-dealer; and disclosing to customers that the capital balance fund value reported on the customer statement is based on information from the issuer and may not be current or realizable upon liquidation.

8 See FAQ "FINRA Rule 4522(b)(1) and Certain Capital Balance Funds," available at: https://www.finra.org/rules-guidance/guidance/faqs/finra-rule-4522b1-and-certain-capital-balance-funds.

9 See the proposed amendments to paragraph (b)(1) in Exhibit 5.

10 FINRA notes, however, that members will continue to be subject to FINRA Rule 4522(b), which states: "Each carrying or clearing member subject to the

the first sentence of paragraph (b)(1) to state that each carrying or clearing member subject to the requirements of SEA Rule 17a-13 shall "[r]eceive position statements as frequently as good business practice requires, but no less than once per month with respect to securities held by clearing corporations, other organizations or custodians, except that this requirement shall not apply to uncertificated investments in unregistered investment funds, where ownership by the member or its customers of such investments is directly recorded on the issuer's ownership registry maintained by the issuer or its agent or, if no such registry exists, is directly recognized by the issuer." In the interest of clarity, FINRA notes that this proposed amendment to the first sentence of paragraph (b)(1) does not affect the applicability of SEA Rule 17a-13, in particular the requirement to conduct at least quarterly the specified securities counts and verifications pursuant to that rule. In that regard, FINRA proposes to revise the second sentence of paragraph (b)(1) to add the phrase ". . . or at least once per quarter with respect to uncertificated investments excepted from the monthly position statement requirement under this paragraph (b)(1) . . .", so the complete sentence as amended would read: "Each such member shall at least once per month, or at least once per quarter with respect to uncertificated investments excepted from the monthly position statement requirement under this paragraph (b)(1), reconcile all such securities and money balances by comparison of the clearing corporations' or custodians' position statements to the

requirements of SEA Rule 17a-13 shall make more frequent counts, examinations, verifications, comparisons and entries where prudent business practice would so require." This requirement would continue to apply to uncertificated investments in an unregistered fund or security excepted from FINRA Rule 4522(b)(1) by the proposed amendments, and firms should have policies and procedures in place to ensure compliance with this provision of the rule.

member's books and records and promptly report difference to the contra organization and such differences shall be promptly resolved by both."[11]

FINRA believes that adopting the proposed exception for uncertificated investments from the once-per-month cadence for position statements will help to give members greater clarity with regard to the treatment of uncertificated investments and to reduce unnecessary compliance burdens given the difficulties involved in receiving the position statements within the express parameters of the rule as currently written.[12] This in turn may encourage members to offer alternative investments, thereby expanding the investment opportunities available to customers. At the same time, the proposed rule change incorporates the quarterly verification requirements under SEA Rule 17a-13 and as such maintains investor protections.[13] Further, FINRA believes the proposed rule change would help align FINRA Rule 4522 with the no-action relief granted by the Commission staff.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice.

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11 See the proposed amendments to paragraph (b)(1) in Exhibit 5.

12 FINRA notes that the proposed rule change would not impact members that are funding portals or that have elected to be treated as capital acquisition brokers ("CABs"), given that neither funding portals nor CABs are subject to FINRA Rule 4522.

13 Uncertificated investments in unregistered investment funds are typically offered by issuers, commonly known as private investment companies, venture capital funds or hedge funds, relying on the exceptions from the definition of "investment company" set forth in Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act. 15 U.S.C. 80a-3(c)(1) and 15 U.S.C. 80a-3(c)(7). FINRA understands owners of these products are mostly large institutional investors. See the Economic Impact Assessment in Item II. B. of this filing.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,[14] which requires, among other things, that FINRA rules 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 exception in the rule change will help to give members greater clarity with regard to the treatment of uncertificated alternative investments and to reduce unnecessary compliance burdens given the difficulties involved in receiving the position statements within the express parameters of Rule 4522 as currently written. This may encourage members to offer more customers the opportunity to participate in these investments, thereby serving the public interest by promoting investor choice.

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.

Economic Impact Assessment

FINRA has undertaken an economic impact assessment to analyze the potential economic impacts of the proposed rule change, including anticipated costs, benefits, and distributional and competitive effects, relative to current baseline, and the alternatives considered in assessing how best to meet FINRA's regulatory objectives.

Regulatory Need

FINRA Rule 4522 works in tandem with the provisions of SEA Rule 17a-13 to

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[14] 15 U.S.C. 78o-3(b)(6).

protect investors by ensuring that, among other things, member firms maintain accurate records of securities in their possession. As discussed above, however, many alternative investments do not fit readily within the framework of the specific count and verification requirements of these rules. The proposed rule change, together with the relief and requirements specified by the SEC, would reduce the particular compliance challenges related to uncertificated investments while ensuring that member firms maintain accurate records of these securities in their possession.

Economic Baseline

The proposed rule change would impact all carrying or clearing members,[15] particularly those that custody alternative investments for customers, specifically uncertificated investments in unregistered investment funds as is further set forth in the proposed rule change. FINRA does not know the exact number of these carrying and clearing members or the scope of the uncertificated investments in unregistered investment funds. Using information provided by firms in FOCUS Form Custody, FINRA estimates that there are approximately 70 carrying and clearing firms that currently carry U.S. or foreign private funds and potentially carry these products. FINRA understands such products are mostly owned by large institutional investors. FINRA also understands that the relief specified in the Letter would not apply beyond the facts and circumstances specified in the Letter and that the proposed rule change would provide relief and greater regulatory clarity more broadly with regard to uncertificated investments in unregistered investment funds. The number of members that currently

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15 See Section 2.6 of the FINRA 2025 Industry Snapshot, available at: https://www.finra.org/media-center/reports-studies/2025-industry-snapshot.

offer uncertificated investments in unregistered investment funds, including the products specified in the Letter, and how these members comply with the current rule, are not known with specificity by FINRA.

Economic Impacts

The proposed rule change is expected to provide direct and indirect benefits to carrying or clearing members with regard to the treatment of uncertificated investments in unregistered investment funds. Members that currently offer investment products within the scope of the proposed exception, and have difficulty meeting the current FINRA Rule 4522 requirements for such funds, will benefit from reduced regulatory burden, compliance uncertainty and associated costs and legal risks. The amount of reduction in regulatory burden and associated costs would depend on the scope and magnitude of activity across products covered by the proposed rule change, and the members' practices and procedures for complying with the current rule.

Members that do not currently offer these investment products may begin to offer them if the relief provided by the proposed rule change is material enough. Doing so may lead to expanded access to such alternative investment products. The proposed rule change is also expected to provide indirect benefits to these members' customers by potentially increasing investment options and portfolio diversification opportunities. The proposed rule change maintains investor protections with the additional requirement on recording or recognizing ownership.

Members that currently offer these products and are in compliance with the current rule could continue with their current activities. FINRA expects, however, that these members as well as members that begin to offer these products and could meet current rule requirements would nevertheless make use of the proposed exception. In particular, these members may reduce the frequency of verification to at least quarterly after determining that prudent business practice for specific products does not require monthly verifications. FINRA does not believe that this will have any impact on the protections currently provided under the baseline.

Members that would choose to take advantage of the proposed exception would need to familiarize themselves with the proposed rule amendment and make any necessary changes to their procedures, protocols, and monitoring systems, to ensure compliance. Members will mostly incur these one-time costs if the benefits from doing so are sufficient.

Anticipated Competitive Effects

Regarding competitive effects, the relief stemming from the proposed rule change would be available to all members that meet the specified conditions of the proposal. Relative to the baseline with the relief specified in the Letter, the proposed rule change may enhance competition among members in providing these alternative investments and across various unregistered investment funds. The impacts on competition for customers among members would depend on the magnitude of the direct cost savings and the extent to which those savings would be shared with clients.

Alternatives Considered

The proposed rule change provides relief requested by member firms as part of rule modernization. The proposal builds on the relief and requirements in the Letter. No significant alternatives were considered.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be 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:

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-2026-019 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-2026-019. 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 filing will be available for inspection and copying at the principal office of FINRA. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-FINRA-2026-019 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.[16]

Jill M. Peterson
Assistant Secretary

[16] 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.

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4522. Periodic Security Counts, Verifications and Comparisons

(a) No Change.

(b) Each carrying or clearing member subject to the requirements of SEA Rule 17a-13 shall make more frequent counts, examinations, verifications, comparisons and entries where prudent business practice would so require. In addition, each such carrying or clearing member shall:

(1) Receive position statements as frequently as good business practice requires, but no less than once per month with respect to securities held by clearing corporations, other organizations or custodians, except that this requirement shall not apply to uncertificated investments in unregistered investment funds, where ownership by the member or its customers of such investments is directly recorded on the issuer's ownership registry maintained by the issuer or its agent or, if no such registry exists, is directly recognized by the issuer. Each such member shall at least once per month, or at least once per quarter with respect to uncertificated investments excepted from the monthly position statement requirement under this paragraph (b)(1), reconcile all such securities and money balances by comparison of the clearing corporations' or custodians' position statements to the member's books and records and promptly report differences to the contra organization and such differences shall be promptly resolved by both. Where there is a higher

volume of activity, good business practice may require a more frequent exchange of statements and their reconciliation; and

(2) No Change.

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