Regulatory Notice 26-23

Collective Trust Funds

FINRA Adopts Amendments to Exempt Specified Collective Trust Funds From FINRA Rules 5130 and 5131

Effective Date: November 5, 2026

November 5, 2026

Notice Type
- Rule Amendment

Suggested Routing
- Corporate Finance
- Legal
- Operations
- Registered Representatives
- Senior Management

Key Topics
- Collective Trust Funds
- New Issue Allocations and Distributions
- Restrictions on the Purchase and Sale of Initial Equity Public Offerings

Referenced Rules & Notices
- FINRA Rule 5130
- FINRA Rule 5131

Summary

FINRA has adopted amendments to exempt specified collective trust funds (CTFs) from FINRA Rule 5130 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings) and from paragraph (b) (Spinning) of FINRA Rule 5131 (New Issue Allocations and Distributions). The amendments maintain the integrity of the public offering process while facilitating vibrant capital markets by expanding access to initial public offerings (IPOs) through a regulated pooled investment vehicle that serves a purpose similar to investment companies registered under the Investment Company Act of 1940 (RICs) and common trust funds. The amendments will become effective on November 5, 2026.

The text of the rule change is set forth in Attachment A.

Questions concerning this *Notice* should be directed to:

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- Ilana Herscovitz Reid, Associate General Counsel, OGC, by email or (202) 728-8268; or
- Demetri Lambros, Associate General Counsel, OGC, by email or (312) 899-4332.

Background & Discussion

FINRA has adopted amendments to Rules 5130 and 5131 to exempt specified CTFs from new issue restrictions while maintaining core investor protections.[1]

Rule 5130 protects the integrity of the public offering process. Except as otherwise permitted under the rule, a member or a person associated with a member may not sell a new issue to an account in which a restricted person has a beneficial interest; a member or an associated person may not purchase a new issue in any account in which such member or associated person has a beneficial interest; and a member may not continue to hold new issues acquired as an underwriter, selling group member or otherwise.[2] Further, before selling a new issue to any account, a member must in good faith have obtained within the 12 months before the sale a representation from the account holder(s) or a person authorized to represent the beneficial owners of the account that the account is eligible to purchase new issues in compliance with Rule 5130.[3]

Paragraph (b) of FINRA Rule 5131 prohibits the practice of "spinning," which refers to a member firm's allocation of new issue shares to an account in which an executive officer or director of a public company or covered non-public company, or a person materially supported by such executive officer or director, has a beneficial interest as an inducement to award the member firm with investment banking business or as consideration for investment banking business previously awarded.[4]

Rule 5130(c), and by reference, Rule 5131(b)(2), exempt specified persons and entities from these restrictions. For example, the rules exempt RICs and common trust funds subject to specified conditions.

CTFs serve investment-pooling purposes similar to those served by RICs and common trust funds. CTFs, however, are not categorically exempt from the new issue rules.[5] Unless another general exemption applies,[6] a member seeking to sell a new issue to a CTF generally must obtain a representation that the account is eligible to purchase new issues. Providing that representation may not be feasible for some CTFs because of their size and operational structure. For example, a CTF may hold assets from multiple employee benefit or retirement plans, each with numerous participants and beneficial owners.

Accordingly, FINRA has amended Rules 5130 and 5131 to create a general exemption for a CTF or similar fund described in Section 3(a)(12)(A)(iv) of the Exchange Act, provided that the fund was not formed or maintained for the specific purpose of permitting restricted persons to invest in new issues.

The new exemption will treat specified CTFs and similar funds consistently with other pooled investment vehicles, such as RICs and common trust funds, that are

subject to general exemptions.[7] It also will expand opportunities for retirement plan participants to obtain exposure to IPOs through pooled investment vehicles offered in their employer-sponsored retirement plans, while maintaining the integrity of the public offering process by requiring that such vehicles not be formed or maintained to circumvent the purposes of the new issue rules.

Effective Date

The amendments will become effective on November 5, 2026.

Endnotes

1 *See* Securities Exchange Act Release No. 106576 (October 2, 2026), 91 FR 64205 (October 7, 2026) (Order Approving File No. SR-FINRA-2026-007).

2 The term "new issue" means any initial public offering of an equity security as defined in Section 3(a)(11) of the Securities Exchange Act of 1934 (Exchange Act), made pursuant to a registration statement or offering circular, subject to a number of exceptions. *See* Rule 5130(i)(9). This term has the same meaning for purposes of Rule 5131. The term "restricted person" includes "members or other broker-dealers," "broker-dealer personnel," "finders and fiduciaries," "portfolio managers," and "persons owning a broker-dealer," as those terms are defined in Rules 5130(i)(10)(A)-(E). The term "beneficial interest" means "any economic interest, such as the right to share in gains or losses. The receipt of a management or performance based fee for operating a collective investment account, or other fees for acting in a fiduciary capacity, shall not be considered a beneficial interest in the account." *See* Rule 5130(i)(1). This term has the same meaning for purposes of Rule 5131. *See* Rule 5131(e)(2).

3 *See* Rule 5130(b). Alternatively, a member may in good faith obtain a representation from a bank, foreign bank, broker-dealer, or investment adviser or other conduit that all purchases of new issues are in compliance with Rule 5130. A member may not rely upon any representation that it believes, or has reason to believe, is inaccurate.

4 *See* Rule 5131(e), *supra* note 1 (defining "beneficial interest," "public company," "covered non-public company," "material support," and "investment banking services").

5 CTFs are also known as "collective investment trusts" or "CITs." FINRA uses the term CTF because it aligns with terminology used in the Exchange Act. *See* 15 U.S.C. 78c(a)(12)(A)(iv).

6 A CTF may rely on an exemption under Rule 5130(c)(4) for an account if the beneficial interests of restricted persons do not exceed in the aggregate 10 percent of such account. Likewise, a CTF may rely on an exemption under Rule 5131(b)(2) for any account in which the beneficial interests of executive officers and directors of the company and persons materially supported by such executive officers and directors in the aggregate do not exceed 25 percent of such account. However, due to their size and operational structure, FINRA believes that a CTF may have difficulty determining whether restricted persons' and covered persons' beneficial interests in the CTF fall below the rules' thresholds.

7 *See* Rule 5130(c)(1) and (c)(2).

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