

Progress Report on FINRA360

APRIL 2018

A REPORT FROM THE FINANCIAL INDUSTRY REGULATORY AUTHORITY

Message From the CEO

We launched FINRA360 in March 2017 with one overarching objective: to ensure that FINRA is operating as the most effective and efficient self-regulatory organization (SRO) we can be.

The time was right for such a review. In the 10 years since the NASD and NYSE Regulation merged to form FINRA, the industry and financial markets have changed significantly. And in traveling around the country and meeting with a broad range of stakeholders since I became CEO in August 2016—including many of our members, as well as investors, investor advocates, regulators, trade associations and FINRA employees—I heard a lot about what FINRA is doing well and where there are opportunities for improvement.

One of our first steps under FINRA360 was to publish a [Special Notice on Engagement](#) in March 2017 to provide interested stakeholders with an opportunity to give us their input and feedback about FINRA. As we had hoped, a large number of parties provided us with extensive and detailed comments. FINRA360 provided a framework to address this and other feedback we have received, to engage in a thoughtful analysis to determine opportunities for improvement, and to make changes that will produce a more effective, more efficient organization. Throughout the past year, I have directed our staff to consider any changes that will improve FINRA while better serving the interests of investors and promoting strong and vibrant capital markets.

Our work under FINRA360 also must reflect our unique identity as an SRO that stands at the intersection of regulation and industry. Our mission is investor protection and market integrity, and our task is to work with our members, investors and other stakeholders to cultivate a deep expertise in the securities industry that enables a more effective regulatory framework and promotes vibrant capital markets. As an SRO, for example, we are in a position to involve the industry more directly in our deliberations and thus benefit from their expertise on relevant matters, such as the different business models of firms and how they operate in practice, the complex and rapidly evolving securities markets in which they trade, and the concerns of the wide range of investors they serve. We can combine what we learn from the firms we regulate with the input we actively seek from the investing public and others representing them to enrich our regulatory programs and develop solutions that are more practical, tailored and effective. And we can develop compliance tools and other resources to assist our members with fulfilling their regulatory obligations.

As indicated in the attached Progress Report, the first year of FINRA360 is already resulting in significant change across the organization. This effort has involved hundreds of stakeholders and FINRA staff in an effort to improve our efficiency and operations. Major actions to date include:

- ▶ integrating our two Enforcement programs into a single unified structure;
- ▶ releasing an [Examinations Findings Report](#) publicly detailing our observations from the prior year's examinations;
- ▶ publishing a summary of our [2018 budget and of our financial guiding principles](#);
- ▶ launching a [Small Firm Helpline](#) to address routine questions about FINRA;
- ▶ creating an Innovation Outreach Initiative to address the growing activity in [FinTech](#);
- ▶ increasing funding for training of examiners and regulatory coordinators;
- ▶ updating the activities of our [advisory](#) and [governance](#) committees and enhancing our transparency regarding what they do and how interested parties can [get involved](#); and
- ▶ further advancing our risk-based approach to examinations and implementing certain process improvements in how we interact with member firms in the exam context.

In analyzing the suggestions and comments we received and deciding which ones to implement, we have placed particular emphasis on changes that benefit investors, promote compliance, address duplicate operations, enhance transparency, foster engagement or improve our day-to-day supervisory interactions with firms. We believe that these priorities provide us with a framework for analysis that ensures any changes we select for implementation have the greatest positive impact on FINRA, investors and the industry.

Over the past year, in the midst of the ongoing change sparked by FINRA360, our staff has remained focused on performing our many operational and supervisory responsibilities, including examinations, surveillance and enforcement. And in the normal course of doing this work, we also have made many enhancements and improvements to our operations that are not discussed in the attached report. To mention just a few examples, during the last year we have continued to enhance our ability to identify and take action against brokers and firms that present heightened risk of fraud or investor harm, we implemented a new regulation to enhance protections for senior investors, we successfully implemented a system for reporting (for the first time) transactions in U.S. Treasury securities by our members, and we published a comprehensive analysis of options to address arbitration awards that go unpaid while issuing several rule proposals related to such awards.

A year into what I have often emphasized is a multi-year initiative, we have accomplished a great deal, but we still have much more work ahead of us. We are turning our attention in the coming year to our Examination program and a number of other areas where we think we can achieve additional meaningful change. These may include larger organizational changes as well as smaller improvements that collectively will have significant impacts on our day-to-day interactions with the firms we regulate and the investing public we protect. Expect more to come.

Robert Cook
President and Chief Executive Officer



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Operations

FINRA360 has yielded a number of organizational and operational changes aimed at making FINRA a more efficient, more effective regulator.

Changes to FINRA Enforcement Structure

Background

Until last summer, FINRA maintained two distinct enforcement teams within the organization—one handling disciplinary actions related to trading-based matters found through our market surveillance and trading examination programs, and the other handling cases referred from other regulatory oversight divisions within FINRA, such as sales practice examinations and our Office of Fraud Detection and Market Intelligence. Through FINRA360, we analyzed stated firm concerns that these dual programs sometimes resulted in duplication of effort and inconsistency of results.

In July 2017, following FINRA360 review and analysis, we began the process of combining the enforcement teams into a single Enforcement Department led by a new Executive Vice President of Enforcement. In addition, the new Executive Vice President, Susan Schroeder, now reports directly to FINRA’s Chief Executive Officer (CEO) and also sits on FINRA’s Management Committee.

“We built our integrated department with a focus on resolving cases with consistent, foreseeable outcomes designed to effect change—to incentivize compliance, to fix things that are broken, to make harmed customers whole and to prevent future harm from recurring.”

—Susan Schroeder, Executive Vice President, Enforcement, Speech at SIFMA Anti-Money Laundering & Financial Crimes Conference, February 12, 2018

These changes to FINRA’s enforcement program are designed to recognize and reinforce the central role it plays. The unified structure will improve FINRA’s ability to streamline investigations, share information, enhance consistency and maximize our resources to protect investors and the markets. These changes will result in a more effective and efficient enforcement function that will enable the organization to vigorously and fairly enforce applicable rules.

In addition to taking important steps to complete the integration of the programs, the Executive Vice President of Enforcement has provided clear communication to the industry and general public of FINRA’s approach to pursuing and resolving enforcement cases.¹

Summary of Actions

- ▶ Combined FINRA's enforcement team and designated a new Executive Vice President of Enforcement reporting directly to the CEO, with a seat on FINRA's Management Committee.
- ▶ Provided clear communication to the industry and the public of FINRA's approach to pursuing and resolving enforcement cases.
- ▶ Developed and began implementing a departmentwide restructuring to align roles and responsibilities across the department.
- ▶ Created a new senior management role, the Counsel to the Executive Vice President of Enforcement, responsible for reviewing the Enforcement docket holistically and identifying and escalating matters for discussion to ensure a cohesive organizationwide approach to novel or interpretive issues.
- ▶ Began developing a new business process to centralize and enhance reviews of Enforcement's recommendations to achieve greater consistency and transparency in outcomes.
- ▶ Consolidated the Enforcement litigation docket to achieve a unified approach, strategic staffing and shared best practices in all FINRA disciplinary litigations.

FINRA Examination Program Improvements

Background

Examinations are central to FINRA's regulatory operations, and they are one of the principal means by which the organization acts to protect investors and promote market integrity. Another goal for FINRA's examinations is to provide value to firms in terms of feedback on areas for improvement and best practices based on insights we have gathered from examining others in the industry.

FINRA has continuously sought to improve the effectiveness and efficiency of its examination programs, an effort that has accelerated under FINRA360. The firms we supervise have communicated a number of concerns to us about their examinations. They range from a desire to move away from a "one-size-fits-all" examination program to a more risk-based program to identifying certain elements of the examination process that cause unnecessary friction in the day-to-day professional interactions between firms and examiners. After careful analysis and review of stakeholder input, FINRA is adopting new measures to enhance the examination programs operated by Member Regulation and Market Regulation, and strengthening other measures already in place.

Based on input from our staff, member firms and other stakeholders, FINRA has concluded that these enhancements will make FINRA a more effective, agile and risk-focused regulator. These enhancements also will improve information sharing with firms, improve the process for information requests, improve examiner expertise, and reduce duplication and gaps in examination programs. FINRA is continuing to evaluate the operation of its entire examination program, and expects to continue to advance this program of improvement.

Enhancing the Risk-based Examination Framework

FINRA is continuing to implement a risk-based framework designed to better direct and align examination resources to the risk profile and complexity of its member firms. Central to this effort is an ongoing and evolving risk-monitoring program, under which each member firm is assigned a regulatory coordinator responsible for communicating regularly with the firm, understanding its business, and identifying potential risks to the firm, investors and markets.²

For the 2018 examination cycle, FINRA has evaluated how resources are deployed and is focused on ensuring that we direct our attention particularly to high-risk firms, branch offices and registered representatives. The changes to the examination program will result in several benefits for investors, firms and the broader marketplace.

- ▶ The depth and breadth of examinations under this planning framework will more closely match the business model, activities and risk of the firm being examined, avoiding a "one-size-fits-all" approach.
- ▶ Member firms will continue to be examined at least once every four years. Higher risk firms will be examined more frequently based on FINRA's identification and assessment of risks at a member firm and other regulatory commitments, with the riskiest firms being examined at least annually. We will eliminate historical labels such as "2- or 3-year firm" when talking about examination frequency and continue to do an appropriate risk-based examination of every firm at least once every four years.

- ▶ To support this enhanced examination framework, FINRA will continue to strengthen its risk-monitoring program, which informs the assessment of a firm's risks for purposes of an examination and provides the foundation for executing regulatory responses outside of a calendar-based examination—including cause and sweep examinations.
- ▶ The enhanced examination framework also will incorporate process improvements developed in recent years, such as procedures to help avoid overlapping examinations, and measures to ensure examinations are appropriately scoped.

FINRA also will continue to leverage technology in its examinations, with a focus on facilitating more work off-site and conducting more efficient, focused examinations while on-site. In particular, FINRA will continue its efforts to analyze specific data from a firm about its potential risks before arriving on-site, enabling the on-site portion of an examination to be completed with greater speed and efficiency. In 2017, we conducted a pilot electronic off-site examination program to leverage our ability to use our technology and expertise to do more oversight from our offices. We conducted 263 examinations pursuant to this program and will use the lessons learned as our program evolves.

Improving Information Sharing With Member Firms

FINRA recognizes that the information developed in the course of risk monitoring and examinations can be useful for member firms looking to improve their compliance efforts and proactively remediate potential risks, and sharing such information where appropriate can in turn benefit investors and markets. Accordingly, FINRA is committed to performing its examinations consistent with the following policies to reinforce existing information-sharing channels and develop new means for member firms to benefit from our broader regulatory insights that transcend individual examination interactions.

- ▶ Produce and publicize an annual Examination Priorities Letter through the FINRA website and other methods, so that member firms and other stakeholders understand the organization's evaluation of risk areas across the industry.
- ▶ Produce and publicize an annual Examination Findings Report that identifies prominent risk areas across recent examinations and provides general observations on effective practices FINRA has observed at member firms to address those risk areas.
- ▶ Produce trend and peer analyses in the annual Risk Control Assessment Summary Report made available on FINRA's Firm Gateway so that firms can better understand how their operational profile and potential risks align with the broader industry.
- ▶ Maintain a Small Firm Helpline to augment the relationships of small firms with their regulatory coordinators and further facilitate their ability to obtain information from FINRA about their questions and issues of concern.
- ▶ Provide guidance and facilitate escalation of any questions or concerns about an examination by making the management team for the examination available to a member firm throughout its examination. Ensure that the key individual managers for an examination are clearly identified to the firm prior to the examination beginning and encourage firms with questions or concerns about the examination to reach out to these managers to discuss them.³

- ▶ Facilitate a dialogue between the examination team and the firm regarding examination findings. Absent ongoing investor harm, this dialogue includes providing the firm with transparency about the nature of any preliminary findings and offering the firm a reasonable opportunity to respond before FINRA makes any final decisions on exceptions and disposition of the matter.
- ▶ Hold forums with FINRA district offices and firms to maintain ongoing communication regarding the examination and risk-monitoring program.

Improving Processes for Information Requests

FINRA also recognizes that the process of collecting and submitting information required for an examination can require a significant investment of time and resources by member firms. Focused information requests help improve FINRA's communications with firms and better inform FINRA's risk monitoring and examination program. Accordingly, FINRA is committed to performing its examinations consistent with the following policies to enhance the efficiency of how information is requested from member firms in the course of an examination.

- ▶ Use Request Manager⁴ for all information requests made in connection with examinations. FINRA also expects to extend its use of Request Manager to requests from regulatory coordinators with respect to their monitoring responsibilities wherever possible. While FINRA may make information requests of a firm outside of an examination using means other than Request Manager, FINRA will continue to seek to minimize such instances.
- ▶ Enable firms (as many have requested) to designate a single point of contact for all communications about examinations. FINRA expects to enhance Request Manager in 2018 to facilitate this designation, and will continue to use a single point of contact at the firm for such communications wherever possible.
- ▶ Provide firms flexibility as to the data format they use to submit data in response to targeted information requests, and seek wherever practical to accept data in the format (*e.g.*, Excel) in which a firm retains it. FINRA is committed to working with firms to address any practical challenges arising from differences between the data format used by a firm or its vendor and the data format required for regulatory purposes.
- ▶ Make information requests that clearly identify the FINRA department or exchange client making the request.⁵

FINRA also will review its protocols for setting the scope of information requests and take steps to appropriately match the time provided for a response to the scope of the request.

Examination Program Structure

An additional item for review is the future structure of the examination program. In 2018, we intend to analyze and decide on the optimal organizational framework for the examination program—which could include enhanced coordination among examination activities or greater integration. We intend to create and begin to implement a “roadmap” that thoughtfully and methodically builds toward the identified future structure.

Improving Examiner Expertise in Member Firm Operations and Risks

Effective examinations depend on an examination staff that is conversant in the operations and risks of the firms that are being examined. As firms and markets continuously evolve, so too must the skill set of FINRA examiners. Accordingly, FINRA is expanding its efforts to ensure that the training and support it provides its examiners are sufficient for the work demanded in this ever-changing environment.

- ▶ FINRA is building a uniform training program for new examiners, and enhancing examiner training broadly to improve understanding of different business models and risks.
- ▶ FINRA will work to provide opportunities for its examiners to take the licensing tests it administers for industry participants, including the Securities Industry Essentials Exam that will be implemented on October 1, 2018.
- ▶ FINRA is exploring new ways to leverage the expertise of firms, fellow regulators and other market participants to help better train examination staff.

Reducing Unnecessary Duplication and Gaps

FINRA360 continues to consider a number of further changes to increase the efficiency and effectiveness of the examination program, including pilot programs or other changes that would address any overlapping functions or gaps in the program. As this programmatic work advances, FINRA is committed to identifying—before an examination begins—any potential unnecessary duplication or gaps in individual firm examinations, and seeking to address any such duplication or gaps. At the same time, FINRA continues to encourage firms to notify us when an examination begins if another regulator has recently been active in an area scheduled to be covered by that examination.

Summary of Actions

- ▶ Began using a planning framework for FINRA’s calendar-based examination programs in 2018 so that the depth and breadth of examinations under this planning framework will more closely match the risks of the firm being examined, avoiding a “one-size-fits-all” approach.
 - ▶ Subject to the results of FINRA’s ongoing risk monitoring, member firms will continue to be examined at least once every four years.
 - ▶ Higher risk firms will be examined more frequently based on FINRA’s identification and assessment of risks at a member firm and other regulatory commitments, with the riskiest firms being examined at least annually.
 - ▶ The enhanced examination framework also will incorporate process improvements developed in recent years, such as procedures to help avoid overlapping examinations, and measures to ensure examinations are appropriately scoped.
- ▶ Strengthened, and will continue to enhance, FINRA’s risk-monitoring program to support the enhanced examination framework.
- ▶ Published the [Examination Findings Report](#) in December 2017.
- ▶ Implemented a [Small Firm Helpline](#) to augment small firms’ relationship with their regulatory coordinators and further facilitate their ability to obtain information from FINRA about their questions and issues of concern.

- ▶ Create and begin implementing a “roadmap” that thoughtfully and methodically builds toward an integrated examination program.
- ▶ Continue to leverage technology in examinations, with a focus on facilitating more work off-site and conducting more efficient, focused examinations while on-site.
- ▶ Use Request Manager for all information requests in connection with examinations.
- ▶ Extend Request Manager to include requests from regulatory coordinators with respect to their monitoring responsibilities wherever possible.
- ▶ Enhance Request Manager in 2018 to enable firms to designate a single point of contact for all communications about examinations.
- ▶ Review protocols for setting the scope of information requests.
- ▶ Provide firms flexibility as to the data format they use to submit data in response to targeted information requests, and seek wherever practical to accept data in the format (*e.g.*, Excel) in which a firm retains it.
- ▶ Build a uniform training program for new examiners and enhance examiner training broadly to improve understanding of different business models and risks.
- ▶ Provide opportunities for examiners to take the licensing tests FINRA administers for industry participants, including the Securities Industry Essentials Exam that will be implemented on October 1, 2018.
- ▶ Explore new ways to leverage the expertise of firms, fellow regulators and other market participants to help better train examination staff.

FINRA 2018 Annual Budget Summary and Financial Principles

Background

The listening tour and responses to the March 2017 [Special Notice on Engagement](#) elicited comments that some FINRA stakeholders would welcome greater transparency regarding FINRA's budget, especially its financial projections and potential use of fines. FINRA for many years has published an Annual Financial Report that is prepared and audited in accordance with GAAP⁶ that describes the prior year's finances and operations. In the interest of promoting greater transparency regarding our operations, and following FINRA360 review, FINRA in January 2018 published for the first time a summary of its budget, the [2018 Annual Budget Summary](#). In addition, FINRA also published an overview of its supporting Financial Guiding Principles.

Budget Summary

The Annual Budget Summary discusses FINRA's anticipated revenue and expenses for 2018. The Summary provides information on the sources and uses of revenue and illustrates budget trends over the past few years. It provides a forward-looking approach to budget information that corresponds with the lookback approach of the Annual Financial Report.

Financial Guiding Principles

FINRA also published a discussion of the financial principles that guide its financial planning and that are used to construct the budget. The Principles include an emphasis on:

- ▶ funding FINRA's mission to protect investors and promote market integrity;
- ▶ promoting financial transparency, building on FINRA's audited annual financial report by adding a forward-looking annual budget summary;
- ▶ managing expenses responsibly, including employee compensation and capital initiatives;
- ▶ maintaining reasonable member fees, increasing them only after evaluating other potential sources of funding (such as drawing down on excess reserves) and determining that expenses are appropriate to meet regulatory responsibilities;
- ▶ using fines to promote compliance and improve markets, as well as introducing enhanced governance procedures that account separately for fine monies, limit their use to specified purposes approved by the Board of Governors or its Finance Committee, and require that they be itemized and disclosed on an annual basis; and
- ▶ sustaining appropriate financial reserves, with a goal of maintaining reserves equal to at least one year of expenditures.

Publication of the Financial Guiding Principles and an Annual Budget Summary provides more transparency about how FINRA manages its financial resources in order to fulfill its regulatory responsibilities and further its mission.

“As a not-for-profit, self-regulatory organization whose operations are funded by industry fees—without the support of any taxpayer dollars—we must prudently manage our finances to ensure we can fund our mission to protect investors and promote market integrity in a manner that facilitates vibrant capital markets.”

—FINRA Chairman Bill Heyman and FINRA CEO Robert Cook, letter accompanying FINRA 2018 Annual Budget Summary and Financial Guiding Principles

Summary of Actions

- ▶ Published the 2018 Annual Budget Summary.
- ▶ Published FINRA's Financial Guiding Principles that guide the development of FINRA's budget.
- ▶ Added a link to the Firm Gateway to access the FINRA Annual Financial Report.

Data and Analytics

Background

Advanced data analytics is a critical function within FINRA and an important component of our efforts to be a risk-based and data-driven organization.⁷ This work, which supports our examination, surveillance and enforcement functions among others, is conducted in a number of areas throughout FINRA, but primarily within Market Regulation Surveillance, Research, Methodology, and Governance (SRMG), the Regulation Operations Advanced Analytics Team (AAT), the Office of the Chief Economist (OCE), and Technology.

Given the importance of this function, as part of FINRA360, we reviewed our current structure and decided to enhance the communication between the business and technology elements engaged in this activity. Going forward, the teams engaged in advanced data analytics will form an integrated community to maximize the benefits of the investment FINRA has made, and continues to make, in this area.

“Trading activity in the stock, bond and options markets creates a variety of electronic records that we monitor for regulatory purposes. To do our job of protecting investors and ensuring market integrity, it’s important that we are on top of each day’s activity, applying our automated surveillance patterns to help our analysts look for potentially suspicious activity—instead of running to catch up.”

—Steven J. Randich, Executive Vice President and Chief Information Officer, FINRA Blog Post, March 17, 2018

Governance for data analytics will be based on a “hub and spoke” structure that will include business stakeholders, all advanced analytics groups and applicable technology support groups. The different groups will act in many respects as a single team, sharing information and collaborating across the underlying business units to leverage their expertise for the entire organization. We expect this new model will strengthen FINRA’s advanced data analytics function by ensuring and promoting:

- ▶ increased coordination, communication and transparency across advanced data analytic groups;
- ▶ partnership for introducing newer technologies, tools and techniques and sharing best practices;
- ▶ better alignment of domain specific knowledge and business priorities across the advanced data analytic groups;
- ▶ consistent technology support for all advanced analytic groups;
- ▶ thought leadership empowerment through better coordination; and
- ▶ the ability for the “spokes” and Technology to continue to produce cutting edge analytical tools and programs to enable FINRA to better protect investors and promote market integrity.

Our ultimate goal is to have an integrated approach to data analytics that avoids duplication, translates data into real results and supports coordinated contributions from all the various groups engaged in this activity.

Summary of Actions

- ▶ Established a governance structure to formalize and improve the communication and collaboration across the existing teams to form an integrated community. The governance structure will include business stakeholders, all advanced analytics groups and applicable technology support groups.

Regulatory Operations Oversight Committee (ROOC)

Background

In March 2017, FINRA's Board of Governors established a new standing committee, the Regulatory Operations Oversight Committee (ROOC), to advise and assist the Board in providing oversight on FINRA's regulatory operations, and supplementing FINRA's broader self-evaluation through FINRA360. This includes providing guidance on the full breadth of FINRA's regulatory operations, including Member Regulation, Market Regulation and Enforcement, among others. The ROOC does not engage in discussions regarding individual enforcement matters.

Summary of Actions

- ▶ Established a new standing committee, the Regulatory Operations Oversight Committee (ROOC), to advise and assist the Board.

Remote Branch Office Inspections

Background

Another issue we are studying through the lens of FINRA360 is branch office inspections. The responsibility of firms to supervise their associated persons is a critical component of federal broker-dealer regulation. Over the last few years, and in comments we have recently received, firms have raised questions about the manner in which they must conduct internal inspections, particularly for those offices or locations with a limited number of associated persons or where only operational or limited supervisory functions take place. These locations often include personal residences of an associated person, an office of convenience where an associated person may meet a customer occasionally and exclusively by appointment, an office used by “circuit riders,” or other public places.

Firms have noted that advances in communications technology and increased acceptance of flexible work arrangements have made remote locations more commonplace. In addition, firms noted that most remote locations do not hold themselves out to the public as a place where securities business takes place and engage in low-risk activity, with no books or records or funds or securities kept on the premises.

In light of these factors, and in recognition of the fact that technology already plays a prominent role in how firms conduct office inspections, firms have questioned the practicality and efficiency of conducting on-site inspections of such locations in fulfilling their obligations under Rule 3110(c).

FINRA has proposed to adopt new Supplementary Material .15 (Remote Inspections), which would give firms the option to fulfill their obligations under Rule 3110(c) by conducting a remote inspection of a “qualifying office,” in lieu of a physical, on-site inspection of such office. Specifically, proposed Rule 3110.15(a) would require a firm that conducts remote inspections to have policies and procedures reasonably designed to determine whether a location is eligible for remote inspection as a “qualifying office” and to assess whether a remote inspection of any such office is reasonable. FINRA requested comment on the proposal in [Regulatory Notice 17-38](#).

Summary of Actions

- ▶ Issued [Regulatory Notice 17-38](#) requesting comment on a proposal that would give firms the option to conduct a remote inspection of a “qualifying office.”

Regulatory Policy

FINRA has made a number of changes in the area of regulatory policy to improve the policy development process and better ensure that our rules reflect current industry dynamics.

Retrospective Rule Review

Background

FINRA believes that it is appropriate, after a reasonable period of time, to look back at its significant rulemakings to determine whether a FINRA rule or rule set is meeting its intended investor protection objectives by reasonably efficient means. These retrospective reviews look at the substance and application of a rule or rule set, including any unintended consequences, as well as FINRA's processes to administer the rules. The goals of our retrospective rule review program are fully aligned with the overall objectives of FINRA360, and thus advancing and accelerating this program have become key components of the FINRA360 organizational review.

“There’s a discipline to asking certain kinds of questions when you are going to do a regulatory intervention...Getting in the practice of asking those questions makes us a better regulator.”

—Jonathan Sokobin, FINRA Chief Economist, Remarks from FINRA Unscripted Podcast, November 6, 2017

The following rules are being reviewed as part of our retrospective review program.

Outside Business Activities

In May 2017, FINRA launched a retrospective review of its outside business activities and private securities transactions rules to assess their effectiveness and efficiency. These rules serve important goals: They seek to protect the investing public when a member's registered or associated persons engage in potentially problematic activities that may be unknown to the member but could be perceived by the investing public as part of the member's business. An ancillary benefit is that the rules protect the member from resulting reputational and litigation risks.

The retrospective rule review confirmed the continuing importance of rules relating to outside activities, but also indicated that the current rules, as well as related guidance, could benefit from changes to better align their investor protection goals with the current regulatory landscape and business practices. In particular, FINRA received significant feedback on members' obligations with respect to the investment advisory activities of their registered persons.

Consistent with a number of recommendations by stakeholders during the retrospective review, FINRA recently issued [Regulatory Notice 18-08](#) proposing a single streamlined rule to address the outside business activities of registered persons. The proposed rule would clarify the obligations in this area and reduce unnecessary burdens while strengthening protections relating to activities that may pose a greater risk to the investing public.

Member Application Program (MAP) Rules

FINRA closely reviews applications to become a new member of FINRA, and to make material changes to an existing member's operations, through our Membership Application Program (MAP). The purpose of this review is to screen out firms that may present a serious threat to investors and to impose conditions on members to help protect their customers. The review also seeks to assure that new firms or firms making material changes to their operations are prepared to comply with our rules and the federal securities laws before they begin these operations.

Dedicated staff (MAP Group) reviews the applications and either approves or rejects each application to become a new member or change business operations. These MAP group determinations are subject to review and the firm may appeal adverse determinations to the National Adjudicatory Council (NAC), the SEC and the courts. While the membership application function represents a key self-regulatory function that provides important investor protections, it has generated a number of questions, which prompted our retrospective review of the MAP rules.

During the assessment phase of the retrospective review, commenters supported the core MAP function, while suggesting important changes to clarify the MAP rules and streamline the administrative process. These suggestions were consistent with enhancements to the MAP process that we have been implementing in recent years, including establishing a "fast track" review process, improved applicant outreach and better transparency between applicants and FINRA. In response to the latest comments, FINRA is considering additional changes to the MAP rules and processes.

In response to the issues raised by stakeholders during the assessment phase, FINRA's Board of Governors recently approved a proposal that would, among other changes:

- ▶ restructure and streamline the MAP rules;
- ▶ codify current MAP practices to reduce the overall application review period from 180 days to 150 days; and
- ▶ modify the MAP process by, among other things:
 - ▶ clarifying the events that would require a continuing membership application (e.g., change in ownership or control);
 - ▶ clarifying the ability of the MAP Group to lapse and reject applications; and
 - ▶ eliminating the ability of the MAP Group to impose interim restrictions pending review.

Carrying Agreements

FINRA has launched a retrospective review of FINRA Rule 4311 (Carrying Agreements). Rule 4311 governs requirements applicable to members when entering into agreements for the carrying of customer accounts. The rule in its current form was approved by the SEC in 2011 and is the consolidated successor to former NASD and NYSE rules that had governed this area. Broadly, Rule 4311 prohibits a member, unless otherwise permitted by FINRA, from entering into an agreement for the carrying of any customer account in which securities transactions can be effected unless the

agreement is with a carrying firm that is a FINRA member. Firms are permitted to allocate between themselves responsibility for functions as enumerated in the rule. For example, a smaller firm can maintain relationships with its customers and take responsibility for opening accounts and accepting orders from its customers, while the carrying firm takes responsibility for the extension of credit, the receipt and delivery of funds and securities and safeguarding funds and securities. [Regulatory Notice 18-10](#) asks a series of questions regarding the implementation and impact of Rule 4311. This retrospective rule review may be of particular interest to smaller firms, most of which rely on carrying agreements to discharge core operational and compliance obligations.

Communications with the Public

FINRA is engaged in a retrospective review of its communications with the public rules to assess their effectiveness and efficiency. The retrospective review led to significant changes to the advertising review program:

- ▶ In 2015, FINRA issued [Regulatory Notice 15-17](#) that provided guidance to members on the communications with the public rules. Much of the guidance is derived from questions received in the retrospective review.
- ▶ In 2016, FINRA amended our communications with the public rules to eliminate filing requirements for various types of communications, including investment company shareholder reports, backup material for investment company rankings and comparisons, and generic investment company communications. As a result of these changes, the volume of filings with the Advertising Regulation Department has declined significantly.
- ▶ In October 2017, FINRA upgraded our Advertising Regulation Electronic Files (AREF) System, a web-based application available through the FINRA Firm Gateway that enables firms to electronically submit communications with the public for review by FINRA. The upgrade allows firms to file websites in native format (e.g., html).
- ▶ In April 2017, FINRA published [Regulatory Notice 17-18](#), our third notice that provides guidance to members on their use of social media. FINRA continues to be in the forefront among regulators in providing guidance to firms on this increasingly important form of communication.
- ▶ In February 2017, FINRA published [Regulatory Notice 17-06](#), seeking comment on a proposal to permit firms to distribute customized hypothetical planning illustrations that include projected performance of an asset allocation or other investment strategy, subject to specified conditions.

Payments for Market Making

FINRA has initiated a review of Rule 5250 (Payments for Market Making), which generally prohibits members or their associated persons from accepting any payment or other consideration from an issuer for engaging in market making and related activities. FINRA began the assessment by seeking public comment in [Regulatory Notice 17-20](#) on the effectiveness and efficiency of the rule and is in the process of obtaining further input from a broad range of stakeholders.

Capital Raising

FINRA also carefully examined its rules regarding capital raising. There have been significant developments recently in the mechanisms companies use to raise capital through securities offerings. FINRA believes it is essential that its supervision also evolve where appropriate to ensure that important investor protections are preserved without impeding capital formation. The results of FINRA's review of its capital raising regulations are discussed in greater detail in the broader "Capital Raising" section of this report below.

Summary of Actions

- ▶ Published [*Regulatory Notice 18-08*](#) proposing a single streamlined rule to address the outside business activities of registered persons.
- ▶ Published [*Regulatory Notice 18-10*](#) requesting comment on the effectiveness and efficiency of FINRA Rule 4311 (Carrying Agreements).
- ▶ Upgraded the AREF System to accept the submission of website or web page communications in their native format to FINRA for review.
- ▶ Published [*Regulatory Notice 17-18*](#) to provide guidance regarding the application of FINRA's communications with the public rules to digital communications, in light of emerging technologies and communications innovations.
- ▶ Published [*Regulatory Notice 17-06*](#) seeking comment on a proposal to permit a firm to distribute customized hypothetical planning illustrations that include the projected performance of an asset allocation or other investment strategy, subject to specified conditions.
- ▶ Published [*Regulatory Notice 17-41*](#) seeking comment on the effectiveness and efficiency of Rule 5250 (Payments for Market Making).
- ▶ Published [*Regulatory Notice 17-14*](#) requesting comment on the effectiveness and efficiency of the rules, operations and administrative processes governing broker-dealer activities related to the capital-raising process and their impact on capital formation.
- ▶ Board approved action to seek comment in a *Regulatory Notice* on a proposal to amend the MAP rules and streamline the attendant processes in response to issues raised by stakeholders during the assessment phase.

Qualification Exam Restructuring

Background

FINRA administers qualification examinations that are designed to establish that persons associated with broker-dealers have attained specified levels of competence and knowledge pertinent to their function. Over time, the qualification examination program has increased in complexity to address new products and functions, and related regulatory concerns and requirements. As a result, there are currently 16 representative level exams, with considerable content overlap across them.

To improve its representative-level examination program, FINRA is launching a new Securities Industry Essentials (SIE) exam and revising the representative-level qualification exams. The restructured program, which aligns with our goal of creating efficiencies through FINRA360, is designed to eliminate duplicative testing of general securities knowledge on the representative-level exams by moving such content into the SIE. The SIE will test fundamental securities-related knowledge, including knowledge of basic products, the structure and function of the securities industry, the regulatory agencies and their functions and regulated and prohibited practices, whereas the revised representative-level exams will test knowledge relevant to day-to-day activities, responsibilities and job functions of representatives. The restructured program also eliminates several representative-level registration categories and related exams that have become outdated or have limited utility.

Effective October 1, 2018, new applicants seeking to register as representatives must pass the SIE and a revised representative-level exam, such as the revised General Securities Representative (Series 7) exam, appropriate to their job functions at the firm with which they are associating before their registration can become effective.

Under the restructured program, individuals are not required to be associated with a member firm to be eligible to take the SIE exam. Further, a passing result on the SIE will be valid for four years. Thus, the new exam structure will enable prospective securities industry professionals to demonstrate to potential employers a basic level of knowledge prior to a job application. Individuals can also use the SIE to assess their readiness to enter the securities industry. However, passing the SIE alone will not qualify an individual for registration with FINRA. To be eligible for registration, an individual must also be associated with a firm, pass an appropriate qualification exam for representative or principal status and satisfy the other requirements relating to the registration process.

In addition to these changes, FINRA is evaluating other possible improvements to the qualification process. For example, we are considering a mechanism by which individuals could maintain their qualification status when no longer associated with a firm through the satisfactory completion of continuing education requirements. We also are considering an annual, credit-based requirement that would harmonize the regulatory and firm elements of the current continuing education program. We look forward to collaborating with the Securities Industry Council on Continuing Education as well as with our regulatory partners in exploring these changes in the near future and seeking public comment.

Summary of Actions

- ▶ Restructured the current representative-level qualification examination program into a more efficient format.
- ▶ Beginning October 1, 2018, all potential representative-level registrants will take a general knowledge exam (the SIE) and a tailored, specialized knowledge exam (a revised representative-level exam) for their particular registered role.
- ▶ Individuals who are not associated persons of firms, such as members of the public, will also be eligible to take the SIE.
- ▶ FINRA is retiring exams that have become outdated or have limited utility.

Capital Raising

Background

FINRA promotes the capital-raising process through appropriately tailored rules that are designed to promote transparency and to establish important standards of conduct for the benefit of all market participants, including investors and issuers participating in offerings.

There have been significant developments recently in the mechanisms companies use to raise capital through securities offerings. FINRA believes it is essential that its supervision also evolve where appropriate to ensure that important investor protections are preserved without interfering with capital formation. In response, and as part of FINRA360, we have taken a number of steps to modernize FINRA's regulation of broker-dealers' participation in capital-raising activities, including creating the Capital Acquisition Broker (CAB) rule set for firms engaged in a limited range of corporate-financing activities, and the Funding Portal Rules, a set of streamlined rules that are tailored to the limited scope of activities in which funding portals are permitted to engage under the JOBS Act and the SEC's Regulation Crowdfunding.

While these changes increase efficiency and reduce unnecessary burdens on the capital-raising process without compromising important protections for issuers and investors, FINRA is exploring whether additional changes to these or other FINRA rules, operations or administrative processes would further enhance the capital-raising process while ensuring investor protections.

In April 2017, FINRA issued two *Regulatory Notices* requesting comment on ways to increase efficiency and reduce unnecessary burdens on the capital raising process without compromising important protections for investors and issuers.

Capital Acquisition and Placement Broker Committee

In December 2017, FINRA formed the Capital Acquisition and Placement Broker Committee on a two-year trial basis. The committee will advise FINRA on regulatory and public policy issues arising from the activities of member firms that have elected or are considering electing to be CABs, as well as member firms that have not elected CAB status but have similar business models.

Summary Actions

- ▶ Published [Regulatory Notice 17-14](#) requesting comment on the effectiveness and efficiency of the rules, operations and administrative processes governing broker-dealer activities related to the capital-raising process and their impact on capital formation.
- ▶ Published [Regulatory Notice 17-15](#) requesting comment on proposed amendments to modernize, simplify and clarify FINRA Rule 5110, which applies to underwriting terms and arrangements regarding the public offering of securities.
- ▶ Preparing to file with the SEC amendments to FINRA Rules 5130 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings) and 5131 (New Issue Allocations and Distributions) that would remove certain impediments to capital formation that are unnecessary to protect investors, including to exempt additional persons and types of transactions from the scope of the rules, modify current exemptions to enhance regulatory consistency, and address unintended operational issues.
- ▶ Formed the Capital Acquisition and Placement Broker Committee on a two-year trial basis to advise FINRA on CAB-related issues.

Engagement

FINRA has enhanced its engagement with key stakeholders to provide greater transparency and foster dialogue that helps us better understand the industry and markets we regulate.

Examination Findings

Background

FINRA examines broker-dealers on a regular cycle basis, with each firm receiving an examination at least once every four years. In connection with each of these examinations, FINRA prepares a report—which is available only to the relevant firm—addressing certain aspects of the firm’s compliance with securities rules and regulations.

In response to our request for comments through FINRA360, firms have requested to learn more about what FINRA sees through its examination programs more broadly as a supplement to the individual reports they currently receive following any FINRA exam.

In December 2017, FINRA published a [Report on FINRA Examination Findings](#) to educate firms and facilitate compliance. The report summarizes key examination findings from across FINRA’s programs, enabling firms to use this information to strengthen their own control environment and address any potential deficiencies before their next exam. The report also describes certain practices that FINRA has observed to be effective in appropriate circumstances, which other firms may be able to use as a resource in tailoring their compliance and supervisory programs to their business.

Summary Actions

- ▶ Published a Report on Examination Findings.

Investor Education and Tools

Background

An important part of FINRA's work involves providing investors the information and tools they require to make informed decisions about their assets and avoid dealings with bad actors. Several respondents to the [Special Notice on Engagement](#) issued in March 2017 provided a range of recommendations related to FINRA's efforts in the area of investor education—including the types of investor education content we develop and our dissemination strategies. For example, it is critical to develop the most effective means for communicating information to investors, and one commenter recommended that FINRA continue to use social media to distribute education materials quickly and at relatively low cost. Both FINRA and the FINRA Investor Education Foundation (Foundation) engage in ever-increasing use of social media to reach investors, including the use of Twitter and Facebook.

Another commenter recommended that FINRA host investor education seminars at elder centers and provide more in-person learning opportunities for investors. On our own, through partnerships with nonprofit organizations, or alongside fellow state and federal regulators, both FINRA and the Foundation host numerous in-person investor education events each year, many of which specifically address the concerns of older investors. We also facilitate investor education for younger audiences, especially underserved low-wage workers, through the Foundation's community-based programming. The Foundation's new [website](#) describes these efforts in greater detail.

Other commenters suggested that FINRA focus on evaluating ways to make disclosures more interactive, given that today's investor has a much greater comfort level with technology. The FINRA Foundation periodically provides grant funding to researchers who examine how to improve disclosure. One such study examining the impacts of social interaction on investor understanding of disclosure is expected to be completed later this year.

“At FINRA, we leverage earned and owned media, social media, data-driven tools and traditional outreach methods to help retail investors get the information they need to make sound financial decisions throughout life.”

—Gerri Walsh, FINRA Senior Vice President of Investor Education

Another suggestion pointed to storytelling as a means to connect with investors at the individual level. While the Foundation has used storytelling with great success for several years—largely through the production and release of video vignettes featuring real investors as well as the dissemination of articles that reflect first-person narratives—FINRA also has adopted this approach when developing new content for the [Alert Investor](#) blog. In addition, FINRA recently added investor-focused content to its new [FINRA Unscripted](#) podcast series. We will continue using this format moving forward whenever practicable.

FINRA and the Foundation will continue to explore opportunities to collaborate on investor education and engagement initiatives with a wide range of partners, including as appropriate federal and state securities regulators, nonprofits, academics and industry.

Summary of Actions

- ▶ Enhanced FINRA and Foundation investor-focused content, including introducing storytelling elements to better connect with our audiences and leveraging social media channels to boost dissemination.
- ▶ Overhauled the Foundation's website at www.FINRAFoundation.org to better describe what we do, including the people we help, the networks we strengthen, and the knowledge we gain and share.
- ▶ Engaged, and will continue to engage, stakeholders on ways to collaborate to improve investor content on finra.org and to deliver investor education to a wide range of audiences, including older Americans.

Changes to FINRA Advisory Committees

Background

In March 2017, FINRA issued a *Special Notice* on its engagement programs as part of FINRA360. Based on comments and suggestions regarding the usefulness of some advisory committees, their membership and their effectiveness as a vehicle for dialogue between FINRA and member firms, FINRA is making several changes.

Operational Impact of Rule Changes

Rather than establishing a new committee for the specific purpose of providing insight on operational and technology implications of rule changes—as proposed by several commenters—FINRA broadened the authority and membership of the existing Operations Advisory Committee (OAC) specifically to provide such feedback. Existing OAC members are senior operational and compliance staff from a broad spectrum of firms, and can provide substantive input on the impact of FINRA proposals on the middle and back office functions of firms.

“These enhancements to the advisory committees and the introduction of the Engagement Portal will ensure that FINRA continues to benefit from industry, investor, and other stakeholder expertise and perspectives on critical issues.”

—Marcia E. Asquith, FINRA Executive Vice President of Board and External Relations, FINRA News Release, February 1, 2018

Addressing Issues of Interest to Firms

FINRA received recommendations to establish new committees to address specific topics, including annuity products, private placements and municipal advisor issues. To address feedback, FINRA has updated the enabling resolutions and public descriptions of certain advisory committees on its website to clarify which committees are available as forums to discuss these issues.

FINRA also established two new advisory committees. The Clearing Firm Advisory Committee will serve as a forum for clearing and introducing firms to advise and make recommendations on issues arising from member firm activities relating to the clearance, carrying and settlement of securities, including issues, practices and activities affecting or relating to small member firms, such as their access to clearing services. The Capital Acquisition and Placement Broker Committee will advise FINRA on regulatory and public policy issues arising from the activities of member firms that have elected or are considering electing to be capital acquisition brokers (CABs), as well as member firms that have not elected CAB status but have similar business models.

Committee Transparency

FINRA has published the name and affiliation of each advisory committee member on its website. Interested parties also may contact the individual staff committee liaisons via the contact information provided.

Addressing Technology-related Issues

In light of the limited role of FINRA’s Technology Advisory Committee (FTAC) and in consideration of overlap with the Operations Advisory Committee, FINRA retired the FTAC. To continue and

further enhance the dialogue between FINRA and member firms on important technical topics, FINRA will introduce an annual “Chief Information Officer (CIO) Summit.” The CIO Summit will provide a venue to discuss and receive candid feedback from member firms’ CIOs or their equivalents on important technical topics within the broker-dealer community.

Committee Participation

FINRA launched a new [Engagement Portal](#) on [finra.org](#) to provide an avenue for individuals to inquire about serving on advisory and *ad hoc* committees, the National Adjudicatory Council, the Board of Governors of FINRA, or the Board of Directors of the FINRA Investor Education Foundation (Foundation). We also enhanced the information currently provided on the [Get Involved](#) and [FINRA Committee](#) pages on [finra.org](#) to include more information on the selection process for appointed seats on various committees and issued our first annual [Involvement and Election Process Overview](#) notice on the selection process for interested individuals to be considered for vacancies. In addition, we are widening the distribution list for election-related *Notices* to include each firm’s Chief Executive Officer, Chief Compliance Officer and Chief Operating Officer. Finally, we are proposing to reorganize District Committees into Regional Committees that mirror the regions in which FINRA’s 11 Districts are administratively grouped as an additional way of enhancing engagement.

Summary of Actions

- ▶ Replaced the FINRA Technology Advisory Committee with annual “CIO Summits.”
- ▶ Expanded the charter of the Operations Advisory Committee to provide a venue to obtain important insights regarding rule implementation from a people, process, and technology perspective.
- ▶ Amended the enabling resolutions of several other advisory committees to clarify, among other things, the scope of the subject matter reviewed by the committees.
- ▶ Updated the public descriptions of certain advisory committees on FINRA’s website to clarify which committees are available as forums for discussion of specific issues.
- ▶ Published rosters of each advisory committee, listing the name and affiliation of each advisory committee member on the new Governance page on [finra.org](#).
- ▶ Published the descriptions and staff liaison contacts for *ad hoc* committees.
- ▶ Emailing *Election Notices* to a broader distribution group, including each firm’s Chief Executive Officer, Chief Compliance Officer and Chief Operating Officer.
- ▶ Published a [Special Notice](#) informing firms and other interested parties about the process for filling vacancies on various FINRA advisory and *ad hoc* committees, as well as the National Adjudicatory Council, District/Regional Committees, the FINRA Board of Governors and the FINRA Investor Education Foundation Board of Directors
- ▶ Established two new committees, the Capital Acquisition and Placement Broker Committee and the Clearing Firm Advisory Committee, focused on the specialized issues surrounding capital acquisition brokers and clearing firms.
- ▶ Introduced an [Engagement Portal](#), an online portal that provides interested parties a more streamlined way to express interest in FINRA service.
- ▶ Proposing to reorganize District Committees into Regional Committees that mirror the regions in which FINRA’s 11 Districts are administratively grouped.

Small Firm Helpline

Background

In the year since we introduced our FINRA360 initiative, FINRA has taken a series of actions to enhance support for small firms, including providing small firms with tools and resources to help them comply with regulations.

A consistent comment that FINRA has heard is a desire on the part of small firms for a tool to allow them to get answers to general questions that did not rise to a level that required involvement by their Regulatory Coordinator.

“A common request from the listening tour and other interactions with our members—especially smaller firms—is that we provide more tools to assist firms in achieving compliance. We are stepping up our efforts in this area.”

—FINRA CEO Robert Cook, Remarks at 2017 FINRA Annual Conference

In January 2018, FINRA launched a [Small Firm Helpline](#) to provide direct assistance with answers to general and routine questions, and direct callers to the proper regulatory staff and other departments. The Small Firm Helpline complements the work of FINRA’s Regulatory Coordinators, who are the primary points of contact for firms seeking technical assistance or regulatory information. The Helpline will serve as the clearinghouse for routine calls and general information, which will make it faster and easier for small firms to get answers. The Helpline also will free up other critical FINRA resources to help firms with more substantive matters such as examinations, financial questions, the implementation of rules and licensing requirements.

FINRA employees answer the toll-free Helpline—(833) 26-FINRA or (833) 263-4672—which operates 9 a.m. to 5 p.m. (EST) Monday through Friday.

Summary of Actions

- ▶ Launched a Small Firm Helpline where small firms can get help navigating FINRA’s systems and resources.

Additional Small Firm Initiatives

In addition to the Small Firm Helpline, FINRA has implemented other programs for small firms:

Benefits Specific to Small Firms

- ▶ Launched the Small Firm Helpline.
- ▶ Increased the number of Certified Registered Compliance Professional small firm scholarships.
- ▶ Significantly reduced the small firm registration fee for FINRA conferences.
- ▶ Initiated a retrospective review of FINRA Rule 4311 (Carrying Agreements), especially important to smaller firms, as they often rely on carrying agreements.
- ▶ Created the Capital Acquisition Broker (CAB) rule set for firms engaged in a limited range of corporate-financing activities.

General Benefits That Also Aid Small Firms

- ▶ Enhancements to the risk-based examination program. *(see page 6)*
- ▶ Publishing Examination Priorities Letters, annual Examination Findings Report, and the Risk Control Assessment summary report.
- ▶ Improving information request processes. *(see page 8)*
- ▶ Creating more compliance tools and resources. *(see page 30)*
- ▶ Signed a services agreement with SIPC to ease reporting burdens and compliance costs. *(see page 31)*
- ▶ Requesting comment on a proposal that would give firms the option to conducting a remote inspection of a “qualifying office.” *(see page 15)*
- ▶ The retrospective review of the outside business activities, MAP, communications with the public, payment for market making, and capital raising rule sets. *(see page 16)*
- ▶ Ongoing outreach to firms to identify and address FinTech developments and issues. *(see page 33)*
- ▶ Providing CFP CE credit to nearly 60 FINRA e-learning courses.
- ▶ Offering events on more specialized topics of interest to firms.
- ▶ Making the FINRA Weekly Updates Archive searchable.
- ▶ Introduced an Engagement Portal, an online portal that provides interested parties a more streamlined way to express interest in FINRA service.

Changes to FINRA Rulemaking Process

Background

In response to the March 2017 [Special Notice on Engagement](#) issued as part of FINRA360, FINRA received a number of comments and suggestions regarding engagement in connection with FINRA's rulemaking process. After carefully reviewing and analyzing the comments, FINRA is taking a number of actions to address the comments and suggestions that it received.

Rulemaking Process

Comments regarding the rulemaking process included suggestions to make the process more transparent, encourage engagement with the public and member firms, and improve accessibility to FINRA's responses to comments.

Increased Transparency

FINRA is committed to increasing transparency around its rulemaking process. For example, FINRA staff is previewing with its advisory committees upcoming proposed rulemakings, including anticipated timeframes for when the staff envisions discussing the proposed rulemakings with the committees and the FINRA Board.

FINRA also has broadened the responsibilities and membership of its Operations Advisory Committee (OAC) to increase the focus on operational and technical issues that arise with respect to rule implementation. Since OAC members are senior operational and compliance staff from a broad spectrum of firms, they will provide FINRA with substantive input on the impact of rule proposals on the middle and back office functions of firms.

FINRA is reviewing its [Rule Filing Status Report page](#) to provide comprehensive information regarding the status of proposed rule changes filed with the SEC. In addition, in the next few weeks FINRA will begin providing rule implementation dates on its [Compliance Calendar](#).

Encouraging Engagement

FINRA actively seeks out and welcomes a dialogue with interested stakeholders on its rule proposals. Whether through informal processes or the more formal comment letter process, FINRA encourages those with views on its rule proposals to submit comments or discuss their feedback with the relevant FINRA staff. In order to elicit meaningful comment from interested stakeholders on its rule proposals, FINRA asks questions in its *Regulatory Notices*, and encourages interested stakeholders to respond to those questions, some of which result from discussions with FINRA's committees. These questions seek feedback on a wide range of issues related to the proposed rule, typically including its scope and substance, seeking feedback on regulatory options and potential impacts.

In addition, to provide interested stakeholders with sufficient time to comment on its rule proposals, FINRA has extended the default comment period from 45 to 60 days, while at the same time retaining flexibility to provide shorter or longer comment periods, if warranted.

Some commenters requested that FINRA provide a second round of comments on its rule proposals prior to filing a proposal with the SEC. Today, if there are significant changes to a rule proposal, FINRA often will seek comment on those amendments in a subsequent *Regulatory Notice*. In addition, if FINRA has made changes to a rule proposal in response to input from interested stakeholders, FINRA discusses those changes in the rule proposal, and any subsequent amendments, in filings with the SEC.

Improving Accessibility to FINRA's Responses to Comments

To make it easier to locate FINRA's responses to comments received on its *Regulatory Notices*, FINRA has begun cross-linking between the *Regulatory Notice* requesting comment and the FINRA rule filing containing FINRA's response to comments. In addition, FINRA has begun including in the *Regulatory Notice* announcing SEC approval of a rule change, a link to FINRA's response to comments received by the SEC after publication of the proposed rule change in the *Federal Register*. This change will make it easier for individuals to locate FINRA's response to comments and to see why comments were or were not incorporated into the final rule.

Regulatory Guidance

In recognition of the value that Frequently Asked Questions (FAQs), interpretations and other forms of guidance have in helping member firms comply with FINRA rules, FINRA is committed to publishing such guidance where appropriate. When developing new FAQs or interpretive guidance, FINRA staff may vet the FAQs and interpretive guidance with FINRA's committees, as well as other regulators as applicable, prior to publication. In addition, FINRA communicates the publication of new and updated FAQs and interpretive guidance in its weekly update email to member firms.

FINRA is also considering ways to improve the accessibility on FINRA's website to its rules and related FAQs and interpretive guidance, and plans to make improvements in this regard in 2018. In addition, as described in more detail in the "Retrospective Rule Review" section above, we continue to review whether FINRA rules or rule sets meet their intended investor-protection objectives.

Summary of Actions

- ▶ Extending the default comment period for *Regulatory Notices* requesting comment on a proposed rule change from 45 to 60 days, while retaining flexibility to provide a longer or shorter comment period if warranted.
- ▶ Previewing for the appropriate advisory committees upcoming proposed rulemakings.
- ▶ Reviewing the [Rule Filing Status Report](#) page to provide comprehensive information regarding the status of proposed rule changes filed with the SEC.
- ▶ Adding a new "Rule Filings" category to the Compliance Calendar.
- ▶ Committed to publishing FAQs and interpretive guidance that have general applicability.
- ▶ Including in the *Regulatory Notice* announcing SEC approval of a proposed rule change, a link to FINRA's response to comments received by the SEC after publication of the proposed rule change in the *Federal Register*.

Changes to Engagement with Member Firms: Compliance Tools and Resources

Background

In response to the March 2017 [Special Notice on Engagement](#) issued as part of FINRA360, FINRA received a number of comments and suggestions regarding ways in which FINRA could help facilitate compliance among its member firms. One of FINRA's defining characteristics as a self-regulatory organization (SRO) is the ability to develop compliance tools and other resources to assist our members with fulfilling their compliance obligations. After careful review of the comments and suggestions received, FINRA has taken a number of actions.

Providing Compliance Tools and Resources

In May 2017, FINRA introduced a compliance calendar to help firms keep track of not just upcoming filing requirements and other significant deadlines, but also educational opportunities. Based on feedback heard from the industry and from the *Special Notice*, FINRA is in the process of adding a number of enhancements to the compliance calendar, including the ability to add an event to a personal calendar, email an event and export a month's events. In addition, we are developing a calendar with events specific to a firm, such as reporting deadlines, which will be available in the Firm Gateway in 2018.

FINRA also introduced in May 2017, the [FINRA Compliance Vendor Directory](#), a convenient option for firms searching for vendors that offer compliance-related products and services, such as compliance consultants, cybersecurity experts and exam prep resources. Firms can compare multiple vendors side by side.

“Meeting with FINRA members across the country and during committee meetings are some of the opportunities FINRA has to have a dialogue with members and to better understand the impact of regulation. The tools and resources, such as the new Small Firm Helpline, the Compliance Vendor Directory and the Compliance Calendar, as well as the recent Regional Networking Forums, were developed based on firm feedback and we welcome the ideas.”

—Chip Jones, FINRA Senior Vice President, Member Relations and Education

FINRA launched a [Small Firm Helpline](#) described below in January 2018 to provide an additional resource for small firms to call with questions and receive help from FINRA.

In addition, FINRA has begun holding Regional Member Networking Forums (Forums). The Forums, created in response to feedback received on FINRA's Special Notice on Engagement, are designed to provide individuals associated with FINRA member firms opportunities to engage in key discussions with FINRA senior and regional staff and connect with industry leaders and peers.

Education

In response to feedback received through the Special Notice on Engagement, FINRA has continued to host and expand its menu of educational resources. A complete list of FINRA hosted conferences and events can be found at www.finra.org/industry/conferences-events. In the past year, FINRA has hosted a Blockchain Symposium, introduced Anti-Money Laundering (AML) Half-Day Seminars, will host a conference addressing registration and disclosure issues, and hosted a Cybersecurity Conference.

In 2017, FINRA began offering Certified Financial Planner (CFP) continuing education credits for all of its conferences and the Certified Registered Compliance Professional program. In addition, more than 60 e-learning courses became eligible for CFP continuing education credits in May 2017.

FINRA is significantly lowering the small firm registration fee for all conferences in 2018. In addition, FINRA is increasing the number of small firm scholarships to its Certified Regulatory and Compliance Professional (CRCP) program from three to five in 2018.

Surveillance Report Cards

Although firms generally surveil and review trades for manipulation, bad actors can be very good at concealing their activity by trading across multiple firms, markets and products. This activity can be very hard for any individual firm to detect, so we are now alerting members when our sophisticated surveillance programs flag a suspicious trading pattern. These report cards do not reflect conclusions that violations have occurred. Rather, they indicate potential problems that a firm needs to review. Firms can use this information to upgrade their internal controls and to address any problematic activity long before FINRA can complete a formal investigation.

FINRA's Report Center supports member firms' compliance activities by providing online access to over 40 different reports on a broad scope of compliance data, ranging from trading activity across products to risk monitoring to disclosure. Last year, these reports were accessed more than 300,000 times by 15,000 individuals at FINRA member firms.

In the past year, we have introduced several new report cards covering a variety of regulatory areas, including report cards on potential ATS cross manipulation, potential auto execution manipulation, treasury trade reporting and the large option position report cards.

SIPC Agreement to Ease Reporting Burdens and Compliance Costs

Streamlining a regulatory filing requirement in a manner that reduces burdens on firms while preserving important investor protections is consistent with the goals of FINRA360. In August 2017, FINRA and the Securities Investor Protection Corporation (SIPC) announced a services agreement designed to ease reporting burdens and compliance costs for member firms. The new, simplified filing process also reduces inconsistent or incomplete filing of annual audited financial statements and supplementary reports.

Under the agreement, firms that currently file annual reports separately with SIPC and FINRA will file just once, using FINRA's existing reporting portal. The portal will provide both agencies with the information, enabling the firms to meet the two agencies' respective reporting requirements with a single filing.

Summary of Actions

- ▶ Produced and publicized an annual [Examination Findings Report](#) that identifies prominent risk areas and provides general observations on effective practices.
- ▶ Released a three-part video series that addresses common deficiencies seen during examination of firms' cybersecurity programs.
- ▶ Held a cybersecurity conference with experts and regulators to focus on key ways the industry can maintain cybersecurity.
- ▶ Created a [Compliance Calendar](#) to help firms keep track of significant deadlines and educational opportunities.
- ▶ Based on member feedback, implemented a number of enhancements to the Calendar, including the ability to add an event to a personal calendar and email an event, as well as adding a new "Rule Filings" category to the calendar to provide new rules' effectiveness and implementation dates.
- ▶ Created a FINRA [Compliance Vendor Directory](#) for firms searching for vendors that offer compliance-related products and services, such as compliance consultants, cybersecurity experts and exam prep resources.
- ▶ Began holding Regional Member Networking Forums.
- ▶ Revamping *finra.org* to better highlight Report Center tutorials.
- ▶ Promoting availability of FINRA email subscription lists.
- ▶ Provide immediate notification through RSS feeds when new information is posted on certain FINRA webpages.
- ▶ Enhanced the FINRA Weekly Updates Archive to allow the content to be searchable.
- ▶ Introduced several new report cards, including report cards on potential ATS cross manipulation, potential auto execution manipulation and the large option position report cards.
- ▶ Signed a services agreement with SIPC to ease reporting burdens and compliance costs for member firms.
- ▶ Implemented an automated process to provide SIPC with electronic copies of the annual audits FINRA receives from firms that are also SIPC members.
- ▶ Increased the number of small firm scholarships to the CRCP program in 2018.
- ▶ Significantly reduced the registration cost of FINRA conferences for small firms.
- ▶ Offering events on more specialized topics of interest to firms, including new AML Half-Day Seminars, a Blockchain Symposium, a Cybersecurity Conference, and a Registration and Disclosure Conference.
- ▶ Produced a video on the High-Risk Representative Program, the criteria FINRA uses to identify high-risk activity, and tools and resources that are available to help firms perform their own reviews.
- ▶ Produced a video on the nine risks that inform FINRA's Examination and Surveillance Program.

Innovation Outreach Initiative

Background

FINRA has been actively monitoring financial technology-related (FinTech) developments in the securities industry. A growing number of FinTech firms have been embracing new technologies, pioneering innovative products and developing new client-oriented financial services business models. Many traditional financial service providers are also rethinking their business models, incorporating these technologies and services. As part of the FINRA360 process, FINRA determined that it needed to enhance resources dedicated to this rapidly developing area of the industry.

FinTech has the potential to transform various broker-dealers' business lines, including investment banking, wealth management, trading and research. Broker-dealers are also exploring and leveraging new technologies such as cloud storage, artificial intelligence, machine learning, and blockchain to enhance their overall operational infrastructure and compliance functions. All of these FinTech-related changes are contributing to an evolving landscape for broker-dealers' operations.

“We look at the landscape of the securities industry and try to figure out what issues with securities are likely to crop up and what they are likely to affect.”

— Haimera Workie, FINRA's Senior Director for Emerging Regulatory Issues, Remarks from FINRA's A Few Minutes With FINRA Video Series, February 7, 2017

To foster an ongoing dialogue with the securities industry and to better understand FinTech innovations and their impact on the industry, FINRA established an Innovation Outreach Initiative in June 2017. FINRA created a cross-departmental team that is responsible for carrying out the initiative and working closely with industry participants to gain real-time intelligence on FinTech issues. The new team is tasked with creating and managing a FinTech Industry Committee to facilitate a continuous discussion on FinTech developments and how FINRA's rules and programs interact with technology innovations. The team is also responsible for conducting regional roundtables to provide a forum for market participants (including FINRA members and non-members) to share thoughts, ideas, and concerns regarding FinTech topics; developing internal training programs on FinTech topics for FINRA staff; enhancing collaboration with other regulators (both domestically and internationally); and developing timely publications on FinTech topics, such as the increased adoption of technology applications to facilitate regulatory compliance.

The Innovation Outreach Initiative will enable FINRA to better track FinTech developments across the rapidly changing industry environment in order to support innovation in the industry while maintaining investor protection and market integrity.

Summary Actions

- ▶ Launched a new FinTech webpage that highlights emerging FinTech topics and related FINRA materials (www.finra.org/fintech).
- ▶ Published reports on [blockchain technology](#) and [digital investment advice](#).
- ▶ Published Investor Alerts on initial coin offerings (ICOs) and crowdfunding.
- ▶ Hosted the FINRA Blockchain Symposium in New York in July 2017.
- ▶ Hosted regional FinTech roundtables in San Francisco and Dallas during September 2017 and November 2017, respectively.
- ▶ Established an *ad hoc* advisory committee, the FinTech Industry Committee, composed of committee members drawn from member firms, academia, and industry participants, plus observers from the SEC and North American Securities Administrators Association (NASAA). Held the inaugural meeting in October 2017.
- ▶ Developed a training program for FINRA staff on FinTech-related matters.
- ▶ Engaged in meetings and discussions with domestic and international regulators to address common regulatory issues related to FinTech.
- ▶ Met with dozens of financial firms and technology vendors involved in the FinTech space to respond to inquiries and to seek greater understanding of developments in the industry, particularly related to regulatory technology (RegTech).

Industry Continuing Education

Background

A large number of registered representatives are also Certified Financial Planner™ (CFP®) professionals. These professionals must complete a minimum of 30 continuing education (CE) hours every two years as part of the requirements for CFP certification renewal. Through the FINRA360 process, a number of firms expressed a desire for improved opportunities with regard to continuing education credits.

Recognizing the large number of registered representatives who are also CFP professionals, FINRA worked with the CFP Board to enable CFP professionals who are also registered representatives with FINRA to receive CE credits for nearly 60 of FINRA's e-learning courses, including anti-money laundering, communications with the public, cybersecurity, senior investor issues and insider trading, among others.

FINRA offers e-learning courses that firms may use to satisfy the annual Firm Element requirement, which requires broker-dealers to conduct a needs analysis and establish a formal training program to keep covered registered persons up to date on job- and product-related subjects. These courses can be found at www.finra.org/industry/e-learning.

Summary of Actions

- ▶ Worked with the CFP Board to certify existing and new FINRA e-learning courses for CFP credit.
- ▶ Enabled CFP professionals to receive CE credit for nearly 60 e-learning classes.

FINRA Governance and Transparency

Background

In response to the March 2017 [Special Notice on Engagement](#) issued as part of FINRA360, FINRA received a number of comments and suggestions regarding the governance and transparency of the Board of Governors. These comments stated a desire for more public information regarding the Board's composition and activities. After careful review of the comments and suggestions received, FINRA took a number of actions to make more information available on its website.

“Meaningful conversation with member firms to leverage their expertise and hear their perspective on critical issues is a key part of any successful self-regulatory organization.”

— Marcia E. Asquith, FINRA Executive Vice President of Board and External Relations, FINRA News Release, November 15, 2017

Summary of Actions

- ▶ Enhanced the information provided surrounding Board meetings by providing more detailed pre- and post-board meeting notifications.
- ▶ Refreshed the format of the post-meeting video update to include more direct Board participation.
- ▶ Began issuing detailed post-Board meeting press releases to increase transparency.
- ▶ Launched a new Governance page on *finra.org*, which includes more detailed background information on the FINRA Board, its governors and standing committees, as well as information on the FINRA Board member selection process.

1. www.finra.org/newsroom/speeches/021218-remarks-sifma-aml
2. FINRA provided more information about the risks it considers in this monitoring program in a video for member firms, available at: www.finra.org/industry/few-minutes-finra-nine-risks-inform-finras-examination-and-surveillance-program.
3. Firms may also continue to raise any concerns with the Office of the Ombudsman, which reports to the Audit Committee of the FINRA Board of Governors. Information is available at www.finra.org/about/office-ombudsman.
4. Request Manager is a FINRA-built software tool that facilitates the electronic exchange of information between firms and FINRA. With Request Manager, which is available via Firm Gateway, firms are able to securely submit, manage and track information requests.
5. FINRA provides services to certain equities and options exchanges, including market surveillance, examinations, investigations and disciplinary actions. For more information, see www.finra.org/industry/few-minutes-finra-nine-risks-inform-finras-examination-and-surveillance-program.
6. www.finra.org/about/annual-reports-financials
7. Data analytics is the analysis of data used in the decision making process and the methodologies applied to detect actionable patterns, insights and trends through analytic tools and modeling techniques.



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