

Regulatory Notice

08-78

SEC Approves New Consolidated FINRA Rules

FINRA Announces SEC Approval and Effective Date for New Consolidated FINRA Rules Relating to Warrants, Options and Security Futures

Effective Date: February 17, 2009

Executive Summary

Following the consolidation of NASD and the member regulation, enforcement and arbitration functions of NYSE Regulation into FINRA, FINRA established a process to develop a new consolidated rulebook (Consolidated FINRA Rulebook), which FINRA has discussed in previous *Information Notices*.¹ In recent months, FINRA began proposing new consolidated rules in phases for approval by the SEC as part of the Consolidated FINRA Rulebook.² In November 2008, the SEC approved the new consolidated FINRA Rules relating to warrants, options and security futures, which will take effect on February 17, 2009.

Questions regarding this *Notice* should be directed to Kathryn Moore, Assistant General Counsel, Office of General Counsel (OGC), at (202) 974-2974 or to Erika L. Lazar, Senior Attorney, OGC, at (646) 315-8512.

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Notice Type

- Rule Approvals
- Consolidated Rulebook

Suggested Routing

- Compliance
- Legal
- Senior Management

Key Topic(s)

- Effective Dates of Consolidated Rules
- FINRA Manual
- Options
- Rulebook Consolidation
- Security Futures
- Warrants

Referenced Rules & Notices

- FINRA Rule 2300 Series
- FINRA Rule 2350 Series
- FINRA Rule 2351
- FINRA Rule 2352
- FINRA Rule 2353
- FINRA Rule 2354
- FINRA Rule 2355
- FINRA Rule 2356
- FINRA Rule 2357
- FINRA Rule 2358
- FINRA Rule 2359
- FINRA Rule 2360
- FINRA Rule 2370
- Information Notice 03/12/08
- Information Notice 10/06/08



Financial Industry Regulatory Authority

Discussion

In November 2008, the SEC approved the following FINRA Rules for adoption as part of the Consolidated FINRA Rulebook:³

- Rule 2351 (General Provisions Applicable to Trading in Index Warrants, Currency Index Warrants and Currency Warrants);
- Rule 2352 (Account Approval);
- Rule 2353 (Suitability);
- Rule 2354 (Discretionary Accounts);
- Rule 2355 (Supervision of Accounts);
- Rule 2356 (Customer Complaints);
- Rule 2357 (Communications with the Public and Customers Concerning Index Warrants, Currency Index Warrants and Currency Warrants);
- Rule 2358 (Maintenance of Records);
- Rule 2359 (Position and Exercise Limits; Liquidations);
- Rule 2360 (Options); and
- Rule 2370 (Security Futures).

The attachment to this *Notice* sets forth additional information regarding these new consolidated rules and includes a hyperlink to the related rule filing. The filing provides, among other things, FINRA's statement of the purpose of the rule changes and, where applicable, exhibits showing the changes between the new rule text and the text of the NASD and/or Incorporated NYSE Rules as they exist in the Transitional Rulebook. Also, the text of the new FINRA Rules is available in the online FINRA Manual at www.finra.org/finramanual.⁴

Rule Conversion Chart

As discussed in additional detail in *Information Notice 10/06/08* and *Regulatory Notice 08-57*, FINRA has posted a Rule Conversion Chart on FINRA's Web site to help firms become familiar with the new rules and show how the new rules relate to the NASD and/or Incorporated NYSE Rules in the Transitional Rulebook that they will replace.

Firms should be aware that the chart is intended as a reference aid only. FINRA reminds firms that the chart does not in any way serve as a substitute for diligent review of the relevant new rule language. The Rule Conversion Chart is located at www.finra.org/ruleconversionchart.

Endnotes

- 1 See *Information Notice 10/06/08 (Rulebook Consolidation Process: Effective Dates of New Consolidated Rules; Introduction of Rule Conversion Chart)*; see also *Information Notice 03/12/08 (Rulebook Consolidation Process)*.
- 2 The current FINRA rulebook includes (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE (Incorporated NYSE Rules) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the Transitional Rulebook). While the NASD Rules generally apply to all FINRA member firms, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (Dual Members). The new FINRA Rules apply to all member firms, unless such rules have a more limited application by their terms. As the Consolidated FINRA Rulebook expands with the SEC's approval and with the new FINRA Rules taking effect, the rules in the Transitional Rulebook that address the same subject matter of regulation will be eliminated. When the Consolidated FINRA Rulebook is completed, the Transitional Rulebook will have been eliminated in its entirety.
- 3 See Exchange Act Release No. 58932 (November 12, 2008), 73 FR 69696 (November 19, 2008) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval to a Proposed Rule Change, as Modified by Amendment No. 1; File No. SR-FINRA-2008-032).
- 4 FINRA updates the rule text on its online *Manual* within two business days of SEC approval of changes to the rule text.

Attachment A:

List of Approved FINRA Rules (and Related Rule Filing)

The SEC approved the following new FINRA Rules in November 2008. The effective date of these rules is February 17, 2009. The hyperlink to the rule filing is included.

FINRA Rule Filing SR-FINRA-2008-032

www.finra.org/Industry/Regulation/RuleFilings/2008/P038811

The rule change adopts, with minor changes (1) NASD Rules 2840 through 2853 (regarding Trading in Index Warrants, Currency Index Warrants and Currency Warrants) as FINRA Rules 2350 through 2359; (2) NASD Rule 2860 (Options) as FINRA Rule 2360; and (3) NASD Rule 2865 (Security Futures) as FINRA Rule 2370. The rule change deletes the corresponding provisions in Incorporated NYSE Rules 414 (Index and Currency Warrants), 424 (Report of Options) and the Rule 700 Series (Option Rules).

The warrants, options and security futures rules were adopted by FINRA to address the specific risks that pertain to these derivative securities, and to implement provisions of the federal securities laws and SEC rules.¹ These rules include, among other things, provisions requiring specific disclosure documents, additional diligence in approving the opening of accounts, and specific requirements for confirmations, account statements, suitability, recordkeeping and reporting. The rules also contain provisions imposing limits on the size of an options or warrant position and on the number of options contracts or warrants that can be exercised during a fixed period.

Rule/Series No.	Rule Title
Rule 2300 Series	Special Products
Rule 2350 Series	Trading in Index Warrants, Currency Index Warrants and Currency Warrants
Rule 2351	General Provisions Applicable to Trading in Index Warrants, Currency Index Warrants and Currency Warrants
Rule 2352	Account Approval
Rule 2353	Suitability
Rule 2354	Discretionary Accounts
Rule 2355	Supervision of Accounts
Rule 2356	Customer Complaints
Rule 2357	Communications with the Public and Customers Concerning Index Warrants, Currency Index Warrants and Currency Warrants
Rule 2358	Maintenance of Records
Rule 2359	Position and Exercise Limits; Liquidations
Rule 2360	Options
Rule 2370	Security Futures

¹ For example, SEA Rule 9b-1(d) requires a broker-dealer to furnish a customer with a copy of the options disclosure document before accepting an options order from a customer.