

Subordination Agreements

FINRA to Require Electronic Submission of Subordination Approval Requests

Effective Date: November 30, 2015

Executive Summary

FINRA is launching, effective November 30, 2015, a new electronic platform on Firm Gateway for firms to submit all new requests for approval of proposed subordinated loan agreements and secured demand note agreements (referred to as subordinations), including renewals of existing agreements. This *Notice* discusses the electronic submission process, which will replace the current submission of subordination requests in hard copy form to FINRA. As of November 30, 2015, all new requests must be submitted in electronic form through Firm Gateway, and FINRA will no longer accept new requests filed in hard copy form.

Questions concerning this *Notice* should be directed to:

- ▶ Sheryl Martinez, Examination Manager, Membership Application Program (MAP), at (212) 858-4135; or
- ▶ Diana Hernandez, Regulatory Specialist, MAP, at (646) 315-8476.

Background and Discussion

Under FINRA Rule 4110(e)(1), subordinations must meet such standards as FINRA may require to ensure the continued financial stability and operational capability of the member firm, in addition to those specified in Appendix D of SEA Rule 15c3-1. Any subordination entered into by a firm that wishes to receive beneficial regulatory capital treatment must be acceptable to FINRA prior to becoming effective.¹

November 2015

Notice Type

- ▶ Guidance

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Senior Management

Key Topics

- ▶ Subordination Agreements

Referenced Rules & Notices

- ▶ FINRA Rule 4110
- ▶ Regulatory Notice 10-15
- ▶ SEA Rule 15c3-1 Appendix D

To make the approval process for subordination requests more efficient, FINRA is launching, effective November 30, 2015, a new electronic platform on Firm Gateway for firms to submit requests for approval of proposed subordinations and renewals of existing subordinations. The new platform will replace the current submission of subordination requests in hard copy form to FINRA. Pursuant to FINRA Rule 4517(a),² effective November 30, 2015, all new requests for approval of proposed subordinations and renewals of existing subordinations must be submitted in electronic form through the Firm Gateway. FINRA is making no changes to the subordination documentation and related requirements at this time.

Each firm's Super Account Administrator (SAA) will be provided with more details on entitlements prior to the effective date of the new platform. Firms must use their current FINRA entitlement user ID and password to access the Firm Gateway and access the platform for subordination requests. Firm personnel should contact their firm's SAA with any questions regarding how to access Firm Gateway. For Firm Gateway technical questions, contact FINRA's Technical Support Group at (301) 869-6699. In addition, FINRA will announce a training schedule in the FINRA Weekly Update email.

Endnotes

1. See *Regulatory Notice 10-15* (March 2010).
2. FINRA Rule 4517(a) gives FINRA authority to require member firms to file or otherwise submit electronically any regulatory notice or other document that a member firm is required to file with or otherwise submit to FINRA.