

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 28	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2016 - * 019	Amendment No. (req. for Amendments *)
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Filing by Financial Industry Regulatory Authority  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

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

Proposed Rule Change to Adopt NASD Rule 2830 as FINRA Rule 2341 (Investment Company Securities) in the Consolidated FINRA Rulebook

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Julia	Last Name * Bogolin
Title * Counsel	
E-mail * julia.bogolin@finra.org	
Telephone * (202) 728-8111	Fax (202) 728-8264


**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 06/09/2016	Senior Vice President and Deputy General Counsel
By Patrice M. Gliniecki	
(Name *)	



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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of the Proposed Rule Change**

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to adopt NASD Rule 2830 (Investment Company Securities) as FINRA Rule 2341 (Investment Company Securities) in the consolidated FINRA rulebook without any substantive changes. FINRA also proposes to update cross-references within other FINRA rules accordingly.

The text of the proposed rule change is attached as Exhibit 5.

(b) Upon filing with the Commission and implementation by FINRA of the proposed rule change, NASD Rule 2830 will be eliminated from the current FINRA rulebook.

(c) Not applicable

**2. Procedures of the Self-Regulatory Organization**

The Chief Legal Officer of FINRA authorized the filing of the proposed rule change with the SEC pursuant to delegated authority. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA has filed the proposed rule change for immediate effectiveness. The implementation date will be 30 days after the date of the filing.

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

(a) Purpose

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

As part of the process of developing a new consolidated rulebook (“Consolidated FINRA Rulebook”),<sup>2</sup> FINRA is proposing to transfer NASD Rule 2830 (Investment Company Securities) into the Consolidated FINRA Rulebook as FINRA Rule 2341 (Investment Company Securities) without any substantive changes. NASD Rule 2830 regulates members’ activities in connection with the sale and distribution of securities of companies registered under the Investment Company Act of 1940 (“investment company securities”).<sup>3</sup> In connection with the distribution and sale of investment company securities, NASD Rule 2830 limits the sales charges members may receive, prohibits directed brokerages arrangements, limits the payment and receipt of cash and non-cash compensation, sets conditions on discounts to dealers, and addresses other issues such as members’ purchases and sales of investment company securities as principal.

Proposed FINRA Rule 2341 closely tracks the language of NASD Rule 2830 and makes only non-substantive, technical changes to the text of the NASD rule by, for

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<sup>2</sup> The current FINRA rulebook consists of: (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from New York Stock Exchange LLC (“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 members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (“Dual Members”). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process).

<sup>3</sup> As with NASD Rule 2830, FINRA Rule 2341 would not regulate members’ activities in connection with variable insurance contracts, which are regulated by FINRA Rule 2320 (Variable Contracts of an Insurance Company).

instance, replacing the reference to a legacy NASD rule with the applicable FINRA rule and making other non-substantive, technical conforming changes.<sup>4</sup>

In addition, the proposed rule change makes technical changes to paragraph (b)(10) of NASD Rule 2830. Paragraph (b)(10) of NASD Rule 2830 incorporates by reference several definitions under the Investment Company Act, including “open-end management investment company.” However, the Investment Company Act does not define the term “open-end management investment company,” but defines “management company,” and divides this term into two sub-classifications, “open-end company” and “closed-end company.”<sup>5</sup> Accordingly, paragraph (b)(10) of proposed FINRA Rule 2341 would incorporate the definitions of “open-end company” and “closed-end company” from the Investment Company Act, rather than “open-end management investment company.” The proposed rule change would then replace references to the terms “open-end management investment company,” “open-end investment company,” and “open-end management company” in NASD Rule 2830(c), (d), (g), (h), (i) and (j) with references to “open-end company.” Similarly, the proposed rule change would replace references to the term “closed-end investment company” in NASD Rule 2830(d) and (j) with a reference to “closed-end company.” These proposed changes would correct these

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<sup>4</sup> FINRA previously solicited comment on a proposal to move NASD Rule 2830 to the Consolidated FINRA Rulebook with substantive changes. See Regulatory Notice 09-34 (June 2009); see also Securities Exchange Act Release No. 64386 (May 3, 2011), 76 FR 26779 (May 9, 2011) (Notice of Filing File No. SR-FINRA-2011-018) (withdrawn on August 1, 2011). Given that FINRA would like to proceed with the rulebook consolidation process expeditiously to provide greater clarity and regulatory efficiency to FINRA members, FINRA is proposing to move NASD Rule 2830 to the Consolidated FINRA Rulebook without substantive changes at this time, but FINRA may consider proposing substantive changes to the rule as part of future rulemaking.

<sup>5</sup> See Sections 4(3) and 5(a) of the Investment Company Act.

references in the NASD rule for the purposes of adopting it as a FINRA rule, without changing the substantive meaning. As noted in Item 2 of this filing, FINRA has filed the proposed rule change for immediate effectiveness. The implementation date will be 30 days after the date of the filing.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>6</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change, which does not substantively change the rule, is consistent with the Act because it is being undertaken pursuant to the rulebook consolidation process, which is designed to provide additional clarity and regulatory efficiency to FINRA members by consolidating the applicable NASD, Incorporated NYSE, and FINRA rules into one rule set.

**4. Self-Regulatory Organization's Statement on Burden on Competition**

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. As noted above, the proposed rule change will not substantively change either the text or application of the rule. FINRA would like to proceed with the rulebook consolidation process expeditiously, which is believed will provide additional clarity and regulatory efficiency to members.

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<sup>6</sup> 15 U.S.C. 78q-3(b)(6).

5. **Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments were neither solicited nor received.

6. **Extension of Time Period for Commission Action**

Not applicable.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

The proposed rule change is effective upon filing pursuant to Section 19(b)(3) of the Act<sup>7</sup> and paragraph (f)(6) of Rule 19b-4 thereunder,<sup>8</sup> in that the proposed rule change does not significantly affect the protection of investors or the public interest; does not impose any significant burden on competition; and does not become operative for 30 days after filing or such shorter time as the Commission may designate.

In accordance with Rule 19b-4(f)(6),<sup>9</sup> FINRA submitted written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing, or such shorter time as the Commission may designate, as specified in Rule 19b-4(f)(6)(iii) under the Act.<sup>10</sup>

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

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<sup>7</sup> 15 U.S.C. 78s(b)(3).

<sup>8</sup> 17 CFR 240.19b-4(f)(6).

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

<sup>10</sup> 17 CFR 240.19b-4(f)(6)(iii).

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 5. Text of the proposed rule change.



EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-FINRA-2016-019)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt NASD Rule 2830 as FINRA Rule 2341 (Investment Company Securities) in the Consolidated FINRA Rulebook

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,<sup>3</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to adopt NASD Rule 2830 (Investment Company Securities) as FINRA Rule 2341 (Investment Company Securities) in the consolidated FINRA rulebook without any substantive changes. FINRA also proposes to update cross-references within other FINRA rules accordingly.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.19b-4(f)(6).

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

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

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

As part of the process of developing a new consolidated rulebook ("Consolidated FINRA Rulebook"),<sup>4</sup> FINRA is proposing to transfer NASD Rule 2830 (Investment Company Securities) into the Consolidated FINRA Rulebook as FINRA Rule 2341 (Investment Company Securities) without any substantive changes. NASD Rule 2830 regulates members' activities in connection with the sale and distribution of securities of companies registered under the Investment Company Act of 1940 ("investment company

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<sup>4</sup> The current FINRA rulebook consists of: (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from New York Stock Exchange LLC ("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 members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE ("Dual Members"). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process).

securities”).<sup>5</sup> In connection with the distribution and sale of investment company securities, NASD Rule 2830 limits the sales charges members may receive, prohibits directed brokerages arrangements, limits the payment and receipt of cash and non-cash compensation, sets conditions on discounts to dealers, and addresses other issues such as members’ purchases and sales of investment company securities as principal.

Proposed FINRA Rule 2341 closely tracks the language of NASD Rule 2830 and makes only non-substantive, technical changes to the text of the NASD rule by, for instance, replacing the reference to a legacy NASD rule with the applicable FINRA rule and making other non-substantive, technical conforming changes.<sup>6</sup>

In addition, the proposed rule change makes technical changes to paragraph (b)(10) of NASD Rule 2830. Paragraph (b)(10) of NASD Rule 2830 incorporates by reference several definitions under the Investment Company Act, including “open-end management investment company.” However, the Investment Company Act does not define the term “open-end management investment company,” but defines “management company,” and divides this term into two sub-classifications, “open-end company” and

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<sup>5</sup> As with NASD Rule 2830, FINRA Rule 2341 would not regulate members’ activities in connection with variable insurance contracts, which are regulated by FINRA Rule 2320 (Variable Contracts of an Insurance Company).

<sup>6</sup> FINRA previously solicited comment on a proposal to move NASD Rule 2830 to the Consolidated FINRA Rulebook with substantive changes. See Regulatory Notice 09-34 (June 2009); see also Securities Exchange Act Release No. 64386 (May 3, 2011), 76 FR 26779 (May 9, 2011) (Notice of Filing File No. SR-FINRA-2011-018) (withdrawn on August 1, 2011). Given that FINRA would like to proceed with the rulebook consolidation process expeditiously to provide greater clarity and regulatory efficiency to FINRA members, FINRA is proposing to move NASD Rule 2830 to the Consolidated FINRA Rulebook without substantive changes at this time, but FINRA may consider proposing substantive changes to the rule as part of future rulemaking.

“closed-end company.”<sup>7</sup> Accordingly, paragraph (b)(10) of proposed FINRA Rule 2341 would incorporate the definitions of “open-end company” and “closed-end company” from the Investment Company Act, rather than “open-end management investment company.” The proposed rule change would then replace references to the terms “open-end management investment company,” “open-end investment company,” and “open-end management company” in NASD Rule 2830(c), (d), (g), (h), (i) and (j) with references to “open-end company.” Similarly, the proposed rule change would replace references to the term “closed-end investment company” in NASD Rule 2830(d) and (j) with a reference to “closed-end company.” These proposed changes would correct these references in the NASD rule for the purposes of adopting it as a FINRA rule, without changing the substantive meaning. FINRA has filed the proposed rule change for immediate effectiveness. The implementation date will be 30 days after the date of the filing.

## 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>8</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change, which does not substantively change the rule, is consistent with the Act because it is being undertaken pursuant to the rulebook consolidation process, which is designed to provide additional clarity and

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<sup>7</sup> See Sections 4(3) and 5(a) of the Investment Company Act.

<sup>8</sup> 15 U.S.C. 78q-3(b)(6).

regulatory efficiency to FINRA members by consolidating the applicable NASD, Incorporated NYSE, and FINRA rules into one rule set.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. As noted above, the proposed rule change will not substantively change either the text or application of the rule. FINRA would like to proceed with the rulebook consolidation process expeditiously, which is believed will provide additional clarity and regulatory efficiency to members.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>9</sup> and Rule 19b-4(f)(6) thereunder.<sup>10</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4(f)(6).

protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2016-019 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2016-019. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule

change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2016-019 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

Robert W. Errett  
Deputy Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Exhibit 5 shows the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

\* \* \* \* \*

**Text of Proposed New FINRA Rule  
(Marked to Show Changes from NASD Rule 2830; NASD Rule 2830 to be Deleted in  
its Entirety from the Transitional Rulebook)**

\* \* \* \* \*

**2000. DUTIES AND CONFLICTS**

\* \* \* \* \*

**2300. SPECIAL PRODUCTS**

\* \* \* \* \*

**2340. Investment Companies**

**[2830]2341. Investment Company Securities**

**(a) Application**

This Rule shall apply exclusively to the activities of members in connection with the securities of companies registered under the Investment Company Act [of 1940 (“the 1940 Act”)]; provided however, that Rule [2820]2320 shall apply, in lieu of this Rule, to members’ activities in connection with “variable contracts” as defined therein.

**(b) Definitions**

(1) The terms “affiliated member,” “compensation,” “cash compensation,” “non-cash compensation” and “offeror” as used in paragraph (l) of this Rule shall have the following meanings:

(A) through (D) No Change.



(E) “Offeror” shall mean an investment company, an adviser to an investment company, a fund administrator, an underwriter and any affiliated person (as defined in Section 2(a)(3) of the Investment Company [1940] Act) of such entities.

(2) No Change.

(3) “Covered account,” as used in paragraph (k), shall mean (A) any other investment company or other account managed by the investment adviser of such investment company, or (B) any other account from which brokerage commissions are received or expected as a result of the request or direction of any principal underwriter of such investment company or of any affiliated person (as defined in the Investment Company [1940] Act) of such investment company or of such underwriter, or of any affiliated person of an affiliated person of such investment company.

(4) “Person” shall mean “person” as defined in the Investment Company [1940] Act.

(5) through (9) No Change.

(10) The terms “underwriter,” “principal underwriter,” “redeemable security,” “periodic payment plan,” “open-end [management investment] company,” “closed-end company” and “unit investment trust,” shall have the same definitions used in the Investment Company [1940] Act.

(11) A “fund of funds” is an investment company that acquires securities issued by any other investment company registered under the Investment Company [1940] Act in excess of the amounts permitted under paragraph (A) of

Section 12(d)(1) of the Investment Company [1940] Act. An “acquiring company” in a fund of funds is the investment company that purchases or otherwise acquires the securities of another investment company, and an “acquired company” is the investment company whose securities are acquired.

(12) No Change.

**(c) Conditions for Discounts to Dealers**

No member who is an underwriter of the securities of an investment company shall sell any such security to any dealer or broker at any price other than a public offering price unless such sale is in conformance with Rule [2420]2040 and, if the security is issued by an open-end [management] company or by a unit investment trust which invests primarily in securities issued by other investment companies, unless a sales agreement is in effect between the parties as of the date of the transaction, which agreement shall set forth the concessions to be received by the dealer or broker.

**(d) Sales Charge**

No member shall offer or sell the shares of any open-end [investment] company, any closed-end [investment] company that makes periodic repurchase offers pursuant to Rule 23c-3(b) under the Investment Company [1940] Act and offers its shares on a continuous basis pursuant to Rule 415(a)(1)(xi) under the Securities Act [of 1933], or any “single payment” investment plan issued by a unit investment trust (collectively “investment companies”) registered under the Investment Company [1940] Act if the sales charges described in the prospectus are excessive. Aggregate sales charges shall be deemed excessive if they do not conform to the following provisions:

**(1) Investment Companies Without an Asset-Based Sales Charge**

(A) Aggregate front-end and deferred sales charges described in the prospectus which may be imposed by an investment company without an asset-based sales charge shall not exceed 8.5% of the offering price.

(B) (i) Rights of accumulation (cumulative quantity discounts) may be made available to any person in accordance with one of the alternative quantity discount schedules provided in [sub]paragraph (d)(1)(C)(i) below, as in effect on the date the right is exercised.

(ii) If rights of accumulation are not made available on terms at least as favorable as those specified in [sub]paragraph (d)(1)(C)(i) the maximum aggregate sales charge shall not exceed 8.0% of offering price.

(C) (i) Quantity discounts, if offered, shall be made available on single purchases by any person in accordance with one of the following two alternatives:

a. A maximum aggregate sales charge of 7.75% on purchases of \$10,000 or more and a maximum aggregate sales charge of 6.25% on purchases of \$25,000 or more; or

b. A maximum aggregate sales charge of 7.50% on purchases of \$15,000 or more and a maximum aggregate sales charge of 6.25% on purchases of \$25,000 or more.

(ii) If quantity discounts are not made available on terms at least as favorable as those specified in [sub]paragraph (d)(1)(C)(i) the maximum aggregate sales charge shall not exceed:

a. 7.75% of offering price if the provisions of [sub]paragraphs (d)(1)(B) are met.

b. 7.25% of offering price if the provisions of [sub]paragraph (d)(1)(B) are not met.

(D) If an investment company without an asset-based sales charge pays a service fee, the maximum aggregate sales charge shall not exceed 7.25% of the offering price.

**(2) Investment Companies with an Asset-Based Sales Charge**

(A) Except as provided in [sub]paragraphs (d)(2)(C) and (D), the aggregate asset-based, front-end and deferred sales charges described in the prospectus which may be imposed by an investment company with an asset-based sales charge, if the investment company has adopted a plan under which service fees are paid, shall not exceed 6.25% of total new gross sales (excluding sales from the reinvestment of distributions and exchanges of shares between investment companies in a single complex, between classes of an investment company with multiple classes of shares or between series of a series investment company) plus interest charges on such amount equal to the prime rate plus one percent per annum. The maximum front-end or deferred sales charge resulting from any transaction shall be 6.25% of the amount invested.

(B) Except as provided in [sub]paragraphs (d)(2)(C) and (D), if an investment company with an asset-based sales charge does not pay a service fee, the aggregate asset-based, front-end and deferred sales charges

described in the prospectus shall not exceed 7.25% of total new gross sales (excluding sales from the reinvestment of distributions and exchanges of shares between investment companies in a single complex, between classes of an investment company with multiple classes of shares or between series of a series investment company) plus interest charges on such amount equal to the prime rate plus one percent per annum. The maximum front-end or deferred sales charge resulting from any transaction shall be 7.25% of the amount invested.

(C) The maximum aggregate sales charge on total new gross sales set forth in [sub]paragraphs (d)(2)(A) and (B) may be increased by an amount calculated by applying the appropriate percentages of 6.25% or 7.25% to total new gross sales which occurred after an investment company first adopted an asset-based sales charge until July 7, 1993 plus interest charges on such amount equal to the prime rate plus one percent per annum less any front-end, asset-based or deferred sales charges on such sales or net assets resulting from such sales.

(D) The maximum aggregate sales charges of an investment company in a single complex, a class of shares issued by an investment company with multiple classes of shares or a separate series of a series investment company, may be increased to include sales of exchanged shares provided that such increase is deducted from the maximum aggregate sales charges of the investment company, class or series which redeemed the shares for the purpose of such exchanges.

(E) No member shall offer or sell the shares of an investment company with an asset-based sales charge if:

(i) The amount of the asset-based sales charge exceeds .75 of 1% per annum of the average annual net assets of the investment company; or

(ii) Any deferred sales charges deducted from the proceeds of a redemption after the maximum cap described in [sub]paragraphs (d)(2)(A), (B), (C) and (D) hereof, has been attained are not credited to the investment company.

**(3) Fund of Funds**

(A) No Change.

(B) Any acquiring company or acquired company in a fund of funds structure that has an asset-based sales charge shall individually comply with the requirements of paragraph (d)(2), provided:

(i) If the acquiring and acquired companies are in a single complex and the acquired fund has an asset-based sales charge, sales made to the acquiring fund shall be excluded from total gross new sales for purposes of acquired fund's calculations under [sub]paragraphs (d)(2)(A) through (d)(2)(D); and

(ii) If both the acquiring and acquired companies have an asset-based sales charge:

a. the maximum aggregate asset-based sales charge imposed by the acquiring company, the acquired company

and those companies in combination, shall not exceed the rate provided in [sub]paragraph (d)(2)(E)(i); and

b. the maximum aggregate front-end or deferred sales charges shall not exceed 7.25% of the amount invested, or 6.25% if either company pays a service fee.

(C) The rates described in [sub]paragraphs (d)(4) and (d)(5) shall apply to the acquiring company, the acquired company and those companies in combination. The limitations of [sub]paragraph (d)(6) shall apply to the acquiring company and the acquired company individually.

(4) through (5) No Change.

(6) No member or person associated with a member shall offer or sell the securities of an investment company if:

(A) No Change.

(B) The investment company has a front-end or deferred sales charge imposed on shares, or amounts representing shares, that are purchased through the reinvestment of dividends, unless the registration statement registering the investment company's securities under the Securities Act [of 1933] became effective prior to April 1, 2000.

(e) No Change.

**(f) Withhold Orders**

No member shall withhold placing customers' orders for any investment company security so as to profit [himself] as a result of such withholding.

**(g) Purchase for Existing Orders**

No member shall purchase from an underwriter the securities of any open-end [investment] company and no member who is an underwriter of such securities shall purchase such securities from the issuer, except (1) for the purpose of covering purchase orders previously received or (2) for its own investment. Nothing herein shall be deemed to prohibit any member from purchasing securities of any investment company specifically designed for short-term investment (e.g., money market fund).

**(h) Refund of Sales Charge**

If any security issued by an open-end [management investment] company is repurchased by the issuer, or by the underwriter for the account of the issuer, or is tendered for redemption within seven business days after the date of the transaction, (1) the dealer or broker shall forthwith refund to the underwriter the full concession allowed to the dealer or broker on the original sale and (2) the underwriter shall forthwith pay to the issuer the underwriter's share of the sales charge on the original sale by the underwriter and shall also pay to the issuer the refund which [he] it received under [sub]paragraph (d)(1) when [he] it receives [it] such refund. The dealer or broker shall be notified by the underwriter of such repurchase or redemption within ten days of the date on which the certificate or written request for redemption is delivered to the underwriter or issuer. If the original sale was made directly to the investor by the principal underwriter, the entire sales charge shall be paid to the issuer by the principal underwriter.

**(i) Purchases as Principal**



No member who is a party to a sales agreement referred to in paragraph (c) shall, as principal, purchase any security issued by an open-end [management investment] company or unit investment trust from a record holder at a price lower than the bid price next quoted by or for the issuer.

**(j) Repurchase from Dealer**

No member who is a principal underwriter of a security issued by an open-end [investment] company or a closed-end [investment] company that makes periodic repurchase offers pursuant to Rule 23c-3(b) under the Investment Company [1940] Act and offers its shares on a continuous basis pursuant to Rule 415(a)(1)(xi) under the Securities Act [of 1933] shall repurchase such security, either as principal or as agent for the issuer, from a dealer acting as principal who is not a party to a sales agreement with a principal underwriter, nor from any investor, unless such dealer or investor is the record owner of the security so tendered for repurchase. No member who is a principal underwriter shall participate in the offering or in the sale of any such security if the issuer voluntarily redeems or repurchases its securities from a dealer acting as principal who is not a party to such a sales agreement nor from any investor, unless such dealer or investor is the record owner of the security so tendered for repurchase. Nothing in this paragraph shall relate to the compulsory redemption of any security upon presentation to the issuer pursuant to the terms of the security.

Nothing in this Rule shall prevent any member, whether or not a party to a sales agreement, from selling any such security for the account of a record owner to the underwriter or issuer at the bid price next quoted by or for the issuer and

charging the investor to a reasonable charge for handling the transaction, provided that such member discloses to such record owner that direct redemption of the security can be accomplished by the record owner without incurring such charges.

(k) No Change.

**(l) Member Compensation**

In connection with the sale and distribution of investment company securities:

(1) Except as described below, no associated person of a member shall accept any compensation from anyone other than the member with which the person is associated. This requirement will not prohibit arrangements where a non-member company pays compensation directly to associated persons of the member, provided that:

(A) the arrangement is agreed to by the member;

(B) the member relies on an appropriate rule, regulation, interpretive release, interpretive letter, or “no-action” letter issued by the SEC [Commission] or its staff that applies to the specific fact situation of the arrangement;

(C) the receipt by associated persons of such compensation is treated as compensation received by the member for purposes of [the] FINRA rules [Rules of the Association]; and

(D) the record[ ]keeping requirement in paragraph (1)(3) is satisfied.

(2) through (4) No Change.

(5) No member or person associated with a member shall directly or indirectly accept or make payments or offers of payments of any non-cash compensation, except as provided in this provision.

Notwithstanding the provisions of [sub]paragraph (1)(1), the following non-cash compensation arrangements are permitted:

(A) Gifts that do not exceed an annual amount per person fixed periodically by [the] FINRA [Association]<sup>1</sup> and are not preconditioned on achievement of a sales target.

(B) No Change.

(C) Payment or reimbursement by offerors in connection with meetings held by an offeror or by a member for the purpose of training or education of associated persons of a member, provided that:

(i) the record[ ]keeping requirement in paragraph (1)(3) is satisfied;

(ii) through (v) No Change.

(D) Non-cash compensation arrangements between a member and its associated persons or a non-member company and its sales personnel who are associated persons of an affiliated member, provided that:

(i) through (iii) No Change.

(iv) the record[ ]keeping requirement in paragraph (1)(3) is satisfied.

(E) No Change.

(m) No Change.

**(n) Disclosure of Deferred Sales Charges**

In addition to the requirements for disclosure on written confirmations of transactions contained in Rule [2230]2232, if the transaction involves the purchase of shares of an investment company that imposes a deferred sales charge on redemption, such written confirmation shall also include the following legend: “On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus.” The legend shall appear on the front of a confirmation and in, at least, 8-point type.

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<sup>1</sup> The current annual amount fixed by [the Association] FINRA is \$100.

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