



BNY MELLON

Regulations

Business L1 Training iNautix

Course Outline

❑ REGULATIONS

- ❑ Regulatory Bodies in US
- ❑ Laws Governing the Securities Market
- ❑ Broker-Dealer Regulation



Regulations

Why Regulate?



- Globalization of financial markets – countries compete to get a piece of the pie
- International standards and best practices are being negotiated and developed – every country must be able to participate
- Fundamentally - ensuring the markets' safety and soundness

Regulatory Bodies in US

SEC (SECURITIES AND EXCHANGE COMMISSION)

- Regulatory agency created during the great depression that followed the crash of 1929
- It works with criminal law enforcement agencies to prosecute individuals and companies alike for offenses which include a criminal violation
- Enforces the statutory requirement that public companies submit quarterly and annual reports

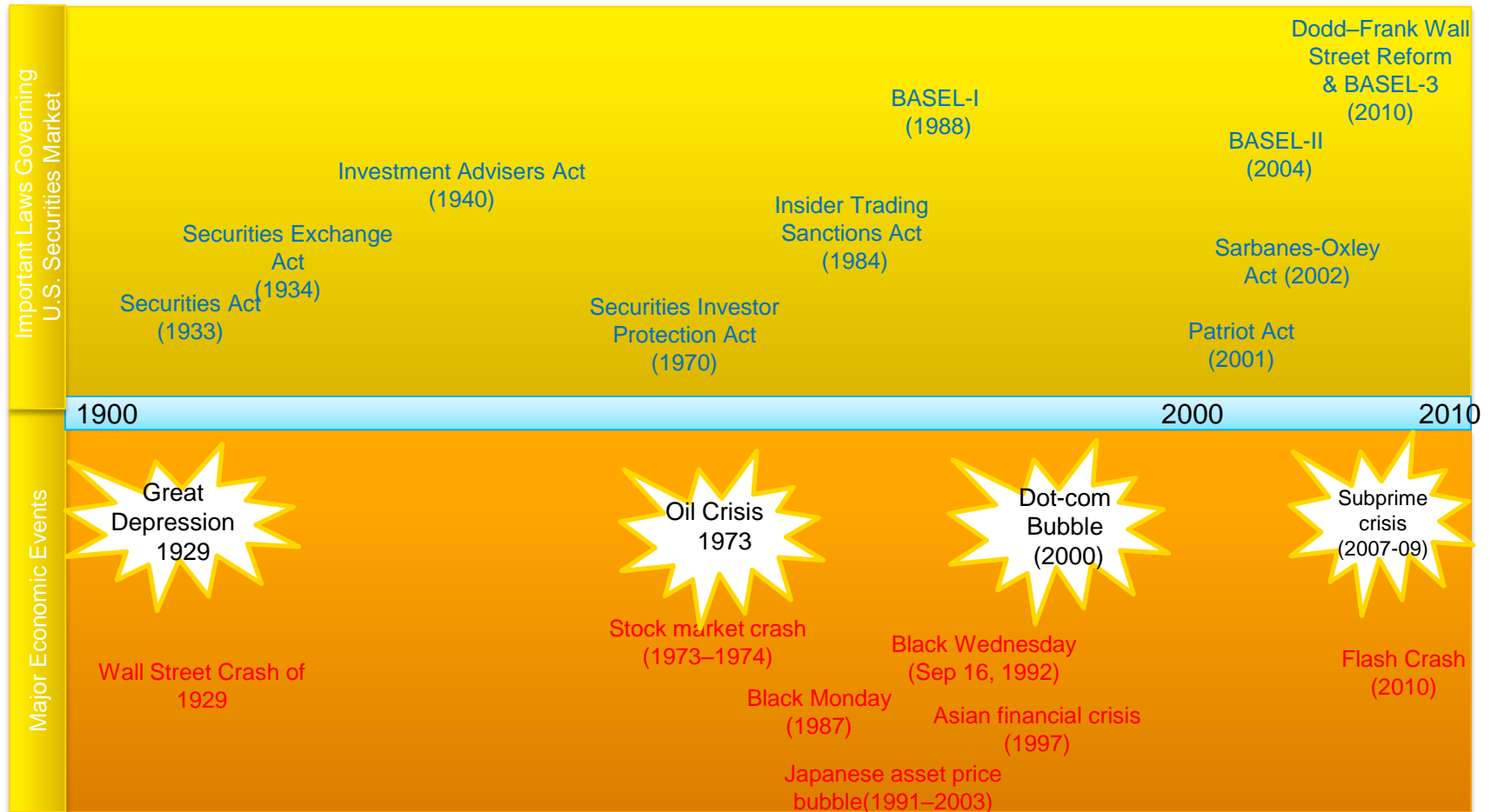
CFTC (COMMODITY FUTURES TRADING COMMISSION) AND NATIONAL FUTURES ASSOCIATION

- Prohibits fraudulent conduct in the trading of futures contracts
- Division of enforcement - investigates and prosecutes alleged violations of the commodity exchange act and CFTC regulations

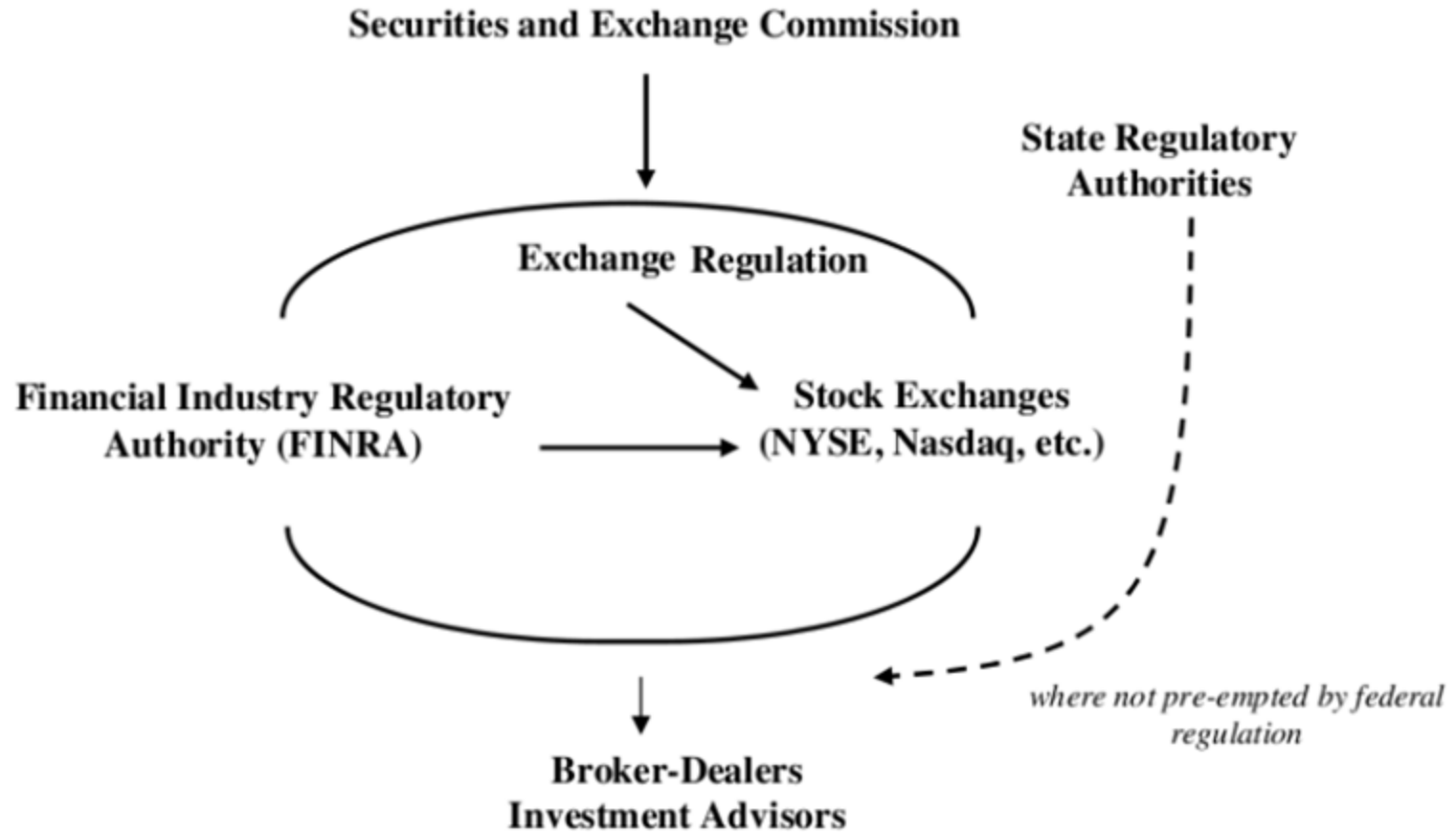
FINRA(FINANCIAL INDUSTRY REGULATORY AUTHORITY)

- Protects America's investors by making sure the securities industry operates fairly and honestly
- Investigates and regulates - Trade Reporting Facilities and other over-the-counter operations

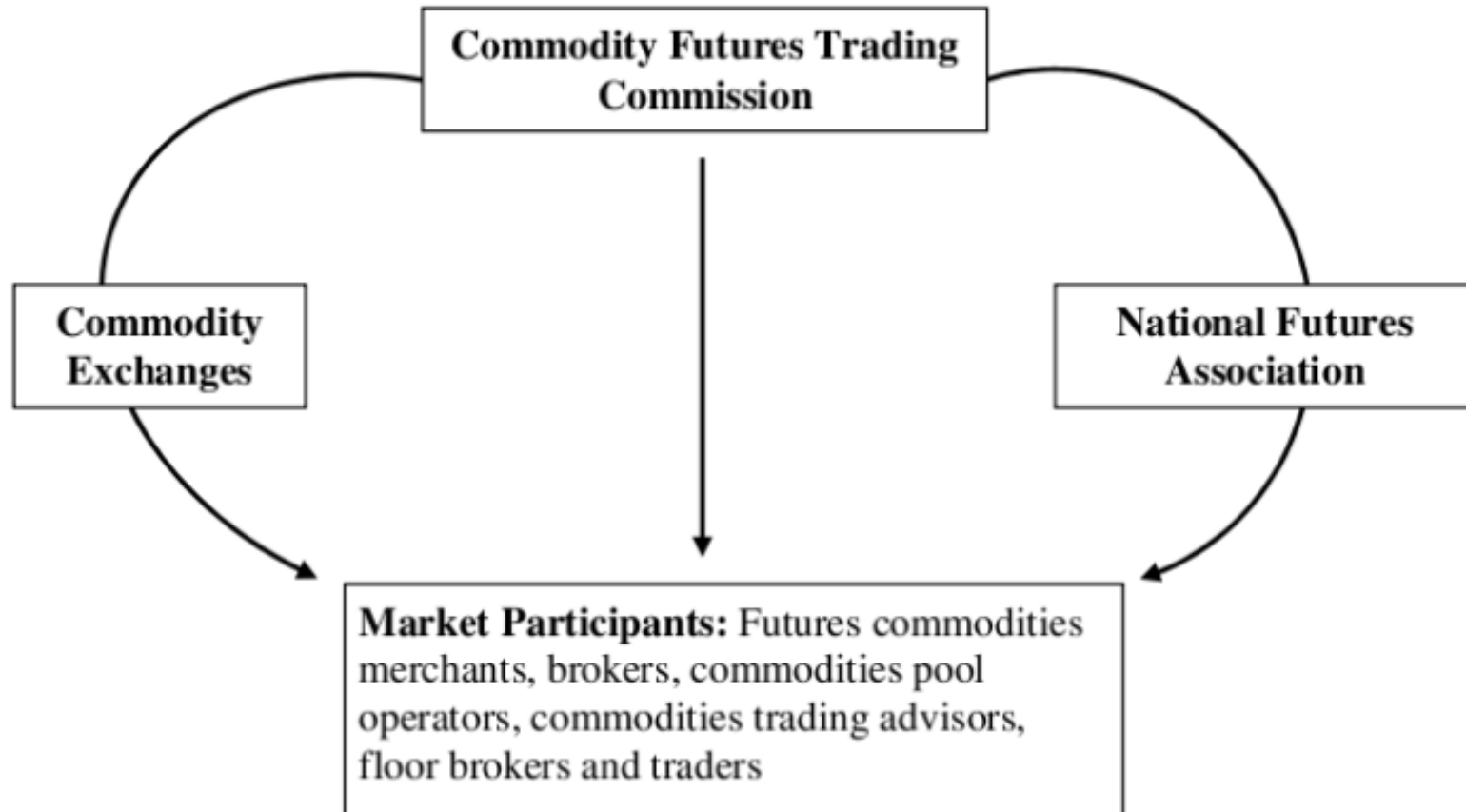
Regulations & Economic Events - Timeline



Regulatory Bodies - Interaction



Regulatory Bodies - Interaction



Laws Governing the Securities Market

THE SECURITIES ACT OF 1933

- First major federal legislation to regulate the offer and sale of securities
- Prior to this law, securities were chiefly governed by state laws referred to as blue sky laws
- Primary objective - prohibit deceit, misrepresentations, and other fraud in the sale of securities to the public

THE SECURITIES EXCHANGE ACT OF 1934

- Laws governing stocks, bonds, and debentures in the secondary market
- Regulate the exchanges and broker-dealers in order to protect the investing public
- Extended the registration and disclosure requirements of the Securities Act of 1933 to all companies with securities listed for sale on a national exchange, as well as other companies with assets over \$1 million and more than 500 shareholders



Laws Governing the Securities Market



INVESTMENT ADVISERS ACT OF 1940

- Requires that firms or sole practitioners who are paid to advise others about investments register with SEC
- Investment advisor does not have to give advice as his/her principal business activity – simply doing so with some regularity is enough to abide by this act

SECURITIES INVESTOR PROTECTION ACT OF 1970

- Supervise the liquidation of financially troubled securities firms and the payment of the claims of their customers
- It covers up to \$500,000, of which no more than \$100,000 can be cash claims

INSIDER TRADING SANCTIONS ACT OF 1984

- Companies are required to announce times to their employees as to when they can safely trade without being accused of trading on inside information

Laws Governing the Securities Market



INSIDER TRADING AND SECURITIES FRAUD ENFORCEMENT ACT OF 1988

- Talks about the fines and penalties that can be levied
- SEC may seek civil and criminal penalties against anyone it believes to have violated this Act

SARBANES-OXLEY ACT OF 2002

- Senior executives take individual responsibility for the accuracy and completeness of corporate financial reports
- Timely reporting of material changes in financial condition
- Describes specific criminal penalties for fraud by manipulation, destruction or alteration of financial records or other interference with investigations, while providing certain protections for whistle-blowers
- Restricts auditing companies from providing non-audit services for the same clients

Laws Governing the Securities Market

PATRIOT ACT OF 2001

- Amongst other acts the financial industry related acts that were modified were Money Laundering Control Act of 1986 and Bank Secrecy Act
- Aggregate amounts of transactions processed from areas of the world where money laundering is a concern to the U.S. government is collected
- Improve communication between law enforcement agencies and financial institutions
- Increases record keeping and reporting requirements, thereby dealing with currency smuggling and counterfeiting, including quadrupling the maximum penalty for counterfeiting foreign currency

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (2010)

- Passed as a response to the late-2008 recession
- Regulatory changes covering capital investment by banks and insurance companies
- Regulations to increase transparency of derivatives
- Consumer protection reforms and uniform standards for "plain vanilla" products
- Provides incentives to promote banking among low- and medium-income residents.



Broker-Dealer Regulation



WHAT'S NEEDED

- Register with SEC
- Member of an SRO & SPIC
- Complies with all applicable state requirements
- "Associated persons" satisfy qualifying requirements

CONDUCT REGULATION OF BROKER- DEALERS

- Anti-fraud provisions prohibit misleading omissions of material facts
- Broker-dealer also has an obligation to determine customer-specific suitability
- Clearly disclose date, time, identity, price, and number of shares in a transaction
- Notify customers purchasing securities on credit about the credit terms and the status of their accounts
- Investment banking operations of broker-dealers must refrain from insider trading
- Limit order display rule requires that specialists and market makers publicly display certain limit orders they receive from customers
- Privacy of consumer financial information

Broker-Dealer Regulation



CONDUCT REGULATION OF BROKER-DEALERS CONT D.. FINANCIAL RESPONSIBILITY OF BROKER-DEALERS

- Making and preserving accurate books and records
- Maintaining minimum amounts of liquid assets, or net capital
- Taking certain steps to safeguard the customer funds and securities

OTHER REQUIREMENTS

- Maintaining AML program
- Lost and stolen securities program
- Guidelines for communicating information
- Business continuity planning

Reference

- Research study - Financial industry regulation in Canada –
<http://www.expertpanel.ca/eng/reports/research-studies/index.html>
 - Broker-dealer regulation guide –
<http://www.sec.gov/divisions/marketreg/bdguide.htm>
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Thank You