

Chapter 16 Prohibited Activities.

The Securities Exchange Act of 1934 Secondary Market.

The 1934 Act prohibits manipulative and deceptive practices in the sale of securities. Rule 10b-5 includes specific anti-manipulation provisions which states:

- It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange*
- a) To employ any device, scheme, or artifice to defraud
 - b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or
 - c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person

In connection with the purchase or sale of any security:

- Rule 10b-1 – Stipulates that antifraud rules also apply to exempt securities
- Rule 10b-3 – Stipulates that broker-dealers are prohibited from engaging in fraudulent practices

SIE CFI Demand Learning Guide

Prohibited Trading Practices

Market rumors	Front-running	Marking-the-Close/Opening	Churning
<ul style="list-style-type: none">▪ Spreading false or misleading information to influence the price of stocks and/or bonds	<ul style="list-style-type: none">▪ RRs executing trades for proprietary accounts (or those for which they have discretion) ahead of a customer's block order (a market moving order)	<ul style="list-style-type: none">▪ Effecting trades near the opening or close of trading in an attempt to influence a stock's closing price up or down	<ul style="list-style-type: none">▪ Excessive trading in a client's account for the purpose of generating additional fees and commissions

Prohibited Trading Practices

Interpositioning	Trading Ahead of Customer Orders	Quoting a Security in Multiple Mediums
<p>Refers to the insertion of a third party between a customer and the best market.</p> <ul style="list-style-type: none">▪ Prohibited if detrimental to the customer, but acceptable if advantageous.	<p>Occurs when, after accepting and while holding a customer order, the dealer executes an order for the same security, same price, on the same side of the market for its own account.</p> <ul style="list-style-type: none">▪ The obligation is to fill the customer's order first.▪ An exception exists if executed by a different department at the same firm if information barriers exist.	<p>Refers to displaying quotes on the same security in multiple markets.</p> <ul style="list-style-type: none">▪ Permitted if quotes are at the same price.

Regulation M Overview

Regulation M (or Reg. M) was created to prohibit manipulative conduct by persons (distribution participants) that have an interest in the outcome of an offering. Some of the rules under Reg M include:

1	2	3
<ul style="list-style-type: none">▪ Limits bids and purchases by distribution participants (underwriters and selling group members)▪ Prevents <i>conditioning</i> the market by restricting trading for a specific period	<ul style="list-style-type: none">▪ Allows for passive market making▪ Permits distribution participants to execute unsolicited trades to maintain marketability of the security	<ul style="list-style-type: none">▪ Permits stabilization of the new issue to protect its price from falling substantially

Trading Ahead of a Research Report

If a firm has knowledge of material, non-public information regarding the contents of a research report, it may NOT establish, increase, decrease, or liquidate an inventory position in a security or its derivative.

- Executing proprietary orders is prohibited until the information is released publicly.
 - Applies to equity, debt and derivatives.
 - Covers exchange and non-exchange listed securities.
- Information barriers must exist between trading and research departments.
 - Barriers prevent the flow of information between the departments

A Market Maker's Quote

A market maker that publishes a quote is obligated to buy or sell at its stated bid or offer and up to the size quoted.

Bid	Ask	Sell @
10.00	10.05	← @

The market maker must buy at 10.00 and sell at 10.05

Buy @

Failure to do so is considered *backing away* (a violation).

Activity

Match each description to the appropriate term.

✓ MARKET RUMORS	A market maker's failure to buy or sell at its stated bid or offer
✓ FRONT-RUNNING	Excessive trading in a client's account to generate additional fees and commissions
✓ CHURNING	Establishing, increasing, decreasing or liquidating a security based on having knowledge of an unexecuted block order
✓ TRADING AHEAD	Spreading false or misleading information to influence the price of stocks and/or bonds
✓ BACKING AWAY	RRs executing orders for proprietary accounts (or those in which you have discretion) ahead of a the release of a research report

Question

Which of the following statements are TRUE with regards to Regulation M? Circle all that apply.

- I. It permits bids and purchases by distribution participants. *Prohibits*.
- II. It allows for passive market making.
- III. It permits stabilization of a new issue to protect its price from falling substantially.
- IV. It was created to prohibit manipulative conduct by persons that have an interest in the outcome of an offering.

Regulation T Payment Date

The Reg. T payment must be obtained for purchases that are made in either cash or margin accounts within two business days of settlement (S+2)	Before settlement, a customer can request that the broker-dealer transfer a trade from a cash account to a margin account	If no payment is made, the position is closed out (securities sold) on the third business day following settlement	The result of non-payment is that the account is frozen for 90 days (all payments must be made in advance)
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An investor who buys a stock and subsequently sells it, but fails to meet the Regulation T requirement, is guilty of *freeriding*.

"S+3 = T+4"

Anti-Intimidation/Coordination Interpretation

The following actions are prohibited:

- Coordinating price quotes, transactions, or trade reports with other market makers
- Threatening, harassing, or intimidating other market makers
- Retaliating against or discouraging the competitive activities of another market maker

Trading Rules

Best Execution	FINRA and MSRB rules require a dealer to use reasonable diligence to obtain best execution for their customers. Factors include: <ul style="list-style-type: none">▪ The character of the market for the security▪ The size and type of the transaction and number of markets checked▪ The ease of obtaining a quote and the terms of the order
MSRB Time of Trade Disclosure	According to the MSRB, dealers are required to provide customers with all material information that is known or reasonably available at or prior to time of trade. <ul style="list-style-type: none">▪ These requirements apply for both solicited and unsolicited trades, trades that occur in the primary or secondary market, or for agency or principal trades.

Insider Trading

Insider trading involves the purchase or sale of securities using material, non-public information about an issuer to make a profit or avoid a loss.

1. TIPPERS AND TIPPEES	2. PROCEDURES
<ul style="list-style-type: none">▪ Refers to inside information passed from one party (tipper) to another (tippee) who then trades on that information▪ If trading occurs, <u>both parties would be in violation</u>.	Broker-dealers must have <u>written policies</u> designed to prevent insider trading. These must include: <ul style="list-style-type: none">▪ A system to <u>monitor</u> an employee's personal trading▪ The establishment of <u>information barriers</u> to prevent access to confidential information▪ <u>Trading restrictions</u> or monitoring of certain securities on which the firm has access to inside information▪ <u>Restricted list – distributed to employees</u>▪ Watch list – only known to legal and compliance
3. INSIDER TRADING PENALTIES	4. BOUNTIES
<ul style="list-style-type: none">▪ Civil – The SEC may demand disgorgement of profits and the payment of treble damages (three times the damage)▪ Criminal – An individual may be subject to a <u>maximum fine of \$5 million</u>, and/or up to 20 years in prison	Eligible whistleblowers are entitled to an award of between <u>10% and 30% of the monetary sanctions</u> collected in actions brought by the SEC and other regulatory authorities.

The New Issue Rule (IPO's - Initial Public Offering) (Primary Market)

The New Issue Rule

FINRA prohibits member firms from selling **equity IPOs** to accounts in which **restricted persons** have beneficial interest

Restricted Persons	<ul style="list-style-type: none">▪ Member firms and any member firm employees▪ Immediate family members of member firm employees if:<ul style="list-style-type: none">• There is material support (25% of the person's income), or• Sharing of a household, or• The purchase is made through the family member's firm▪ Finders and fiduciaries▪ Portfolio managers purchasing for their own account
Preconditions of Sale	<ul style="list-style-type: none">▪ Verification that the account is eligible to purchase the IPO<ul style="list-style-type: none">• May be a written statement or electronic communication• May not be an oral statement▪ Re-verification of eligibility every 12 months
General Exemptions	<ul style="list-style-type: none">▪ An account that includes restricted persons, provided their combined ownership does not exceed 10% (de minimis)▪ Issuer-directed sales that allow restricted persons to purchase if the associated person or associated person's immediate family is an employee or director of the issuer▪ Portfolio managers purchasing for the mutual fund▪ A broker-dealer purchasing for its own account after making a bona fide public offering

Assume
spouse
and
dependents
are restricted.

Sharing in Accounts and Guarantees

Sharing in profits and losses in a client's account is prohibited unless a joint account is established with the client and:

- The employee has the written permission of both the client and the broker-dealer, and
- The sharing is proportionate to the employee's investment
 - An arrangement with a family member is exempt from the proportionate sharing requirement.

Investment advisory accounts permit sharing in profits and losses if:

- Prior written consent between the firm and customer
- Firm is in compliance with SEC regulations

Guarantees – employees may neither guarantee against losses nor reimburse a customer for losses in any way.

Borrowing and Lending

Borrowing and Lending without Notification	Borrowing and Lending with Notification
<ul style="list-style-type: none">▪ RRs borrowing from or lending to customers is acceptable without firm notification if the customer:<ul style="list-style-type: none">• Is an immediate family member, or• Is a financial institution regularly engaged in the business of providing loans	<ul style="list-style-type: none">▪ RRs must provide written notification to their firms and obtain prior written approval if:<ul style="list-style-type: none">• The customer and RR are both registered with the same firm, or• A personal relationship exists, or• A business relationship exists outside of the brokerage firm.

Financial Exploitation Rules

Definition	Procedures
<p>Financial exploitation rules apply to specified adults who are most likely to be exploited including:</p> <ul style="list-style-type: none">▪ Persons age 65 or older▪ Any persons 18 or older believed to have a mental or physical impairment jeopardizing their ability to protect their own interests	<p>If a concern arises, a firm may place a temporary hold on the account</p> <ul style="list-style-type: none">▪ The customer's designated trusted contact person should be notified<ul style="list-style-type: none">• Information regarding the trusted contact person should be obtained when an account is opened (at least a reasonable effort should be made)

Activity

Read each statement and fill in the blanks.

1. Clients who buy or sell a stock without paying the Regulation T requirement commit a free riding.
2. Coordinating price quotes and transactions, delaying reporting of trades, and sharing information about customer orders are examples of anti-intimidation and coordination interpretation.
3. Interpositioning refers to the insertion of a third party between a customer and the best market.
4. Insider Trading involves the purchase or sale of securities using material, non-public information about an issuer to make a profit or avoid a loss.
5. The New Issue Rule prohibits member firms from selling equity IPOs to accounts in which a restricted person has a beneficial interest (more than 10%).
6. Financial exploitation rules apply to specified adults who are most likely to be exploited.

Outside Brokerage Accounts

Employee Requirements	Before a member firm employee can open an account with another firm, the employee must: <ul style="list-style-type: none">▪ Obtain the employer's prior written consent▪ Provide written notification of his association to the executing firm▪ Satisfy the previous two provisions within 30 days of employment if opened prior to employment
Executing Broker-Dealer Requirements	<ul style="list-style-type: none">▪ The executing firm must send duplicate confirmations and statements if requested by the employing firm.▪ This applies to accounts for the employee's spouse, dependent children, or an account in which the person controls or has a beneficial interest.
Exemptions	<ul style="list-style-type: none">▪ Requirements of this rule do not apply to transactions involving mutual funds, variable contracts, unit investment trusts, or 529 plans.

Compensation Rules and Forgery

Payments to unregistered persons

- Generally, firms and RRs are prohibited from paying compensation to any individual or firm who is not FINRA registered.
 - This includes paying referral fees.
 - Retiring representatives may continue to receive commissions on existing accounts if a bona fide contract is created

Forgery

- Signing another person's name without authorization
- May result in criminal prosecution

Broker-Dealer Books and Records

FINRA
↓

Prior to utilizing any form of electronic storage media, a B/D must notify its self-regulatory organization (SRO).

If the electronic storage media to be used is other than CD-ROM, the B/D must give its SRO 90-days' advance notice.

Electronic storage media must have tamper-evident features or the ability to record all changes that are made to its contents.

Question

Which of the following statements are TRUE with regards to Regulation M? Circle all that apply.

- I Sharing in profits and losses in a client's account is always prohibited.
- II Borrowing money from or lending money to a client is acceptable without firm notification if the customer is an immediate family member.
- III If signs of diminished capacity are identified, the firm should move ahead with the disbursement of funds while contacting the customer's designated trusted contact person.
- IV Generally, firms and RRs are prohibited from paying compensation to any individual or firm who is not FINRA registered.

Ch. 16 Quiz.

Insider Trading Fine.

- Individual: \$5 million; 20 years in prison
- Firm: \$25 million

Restricted Persons)

- Immediate family.
- Any employee of B/D

Cross-Market Quotes must have the same quote.

Regulation T: Freeriding in a cash account.

Regulation M: Concerns the primary market.

Best Execution: Use reasonable diligence to obtain best price possible.

Stabilizing Bids allowed AT POP.

Chapter 17: SRO Requirements for Associated Persons

Associated Persons: Employees of FINRA member firms (broker dealers)

- Officers, directors, partners, branch managers.
- Employees (unless clerical / ministerial)
- Person engaged in investment banking/securities business.

Non Registered Persons:

Non-Registered Persons

Customer contact is limited to	<ul style="list-style-type: none">▪ Extending invitations to firm-sponsored events▪ Inquiring as to whether a prospective customer wants to speak with a registered person▪ Inquiring as to whether a customer is interested in receiving investment literature
Customer orders cannot be accepted	<ul style="list-style-type: none">▪ Orders can only be accepted and entered by registered persons▪ If an RR is unavailable, a non-registered person can transcribe an order as long as an RR confirms the order with the customer before it's entered

Commissions or finder's fees cannot be paid to non-registered persons

Registered Representatives

Securities Industry Essentials (SIE) Exam is the centerpiece for becoming registered with the following qualification exams:

- | | |
|-------------|----------------|
| ▪ Series 6 | ▪ Series 57 |
| ▪ Series 7 | ▪ Series 79 |
| ▪ Series 22 | ▪ Series 86/87 |
| ▪ Series 52 | ▪ Series 99 |

Firm Supervision – Principals

Principals are the individuals who are responsible for managing specific areas of a member firm

Focus/Activity	Required Registration
General Securities Sales Supervisor	Series 9/10
General Securities Principal	Series 24
Investment Companies and Variable Contracts Products Principal	Series 26
Financial and Operations Principal	Series 27
Municipal Fund Securities Limited Principal	Series 51
Municipal Securities Principal	Series 53

Examinations

Failing an Examination	<ul style="list-style-type: none">▪ After failing a qualification exam (or the SIE Exam) on the first and/or second attempt, a person must wait 30 days before retesting▪ If the qualification exam (or the SIE Exam) is failed a third time, a 180-day waiting period applies between all subsequent attempts
Exam Confidentiality	<p>FINRA considers it a violation to:</p> <ul style="list-style-type: none">▪ Remove any part of the exam from a test center▪ Reproduce parts of an exam▪ Disclose parts of an exam to another person▪ Receive parts of an exam from another person▪ Compromise past or present exams in any way

Activity

Which statements are TRUE regarding associated persons of a member firm? Circle all that apply.

- The SIE must be taken by all employees.
- Orders can only be accepted and entered by registered personnel.
- Registered representatives will be required to sit for two exams.
- An individual who fails an exam on the second attempt is required to wait 30 days before retesting.

Written Supervisory Procedures

To provide adequate supervision, a firm must establish, maintain, and enforce written supervisory procedures, which include the following:

- Clear identification of a person's supervisory responsibilities and the date assigned
- Procedures for each business line and applicable securities laws for which each supervisor is responsible
- Approving customer accounts and reviewing them periodically in an effort to detect and prevent abuses
- Verifying the good character, qualifications, and experience of all persons being certified for registration and monitor their good standing on a continuing basis

Each registered representative is assigned to a specific supervisor/principal

Registration Requirements

Person must be sponsored by a broker-dealer and must file both Form U4 and a fingerprint card with the Central Registration Depository (CRD)

Some items contained on Form U4:

- Name (nickname/alias) and address
- Personal data and identifying information
- Information regarding any past violations (not limited to the past 10 years)

Statutory Disqualification (SD)

Grounds for statutory disqualification:

- Conviction within the last 10 years of any felony or securities-related misdemeanor
- Denial or revocation of registration by the SEC or CFTC
- Expulsion or suspension from membership with any SRO (U.S. or foreign)
- Omitting a material fact in any application or report to an SRO
- Maintaining a business relationship with a banned person

Eligibility proceeding:

- FINRA offers firms an Eligibility Proceeding process in order to request permission to either hire or continue to employ an SD person. If permitted, heightened supervisory requirements must be established.

Background Checks and Fingerprinting

Background Checks	FINRA requires firms to perform a search of reasonably available public records <ul style="list-style-type: none">▪ Verify the accuracy of the information on the Form U4▪ If registered previously, review the most recent Form U5<ul style="list-style-type: none">• Provides information regarding the reason for termination from previous firm
Fingerprinting	<ul style="list-style-type: none">▪ Required for all applicants who are registering with new firm, even if it had been done with a previous firm▪ Industry requirement extends to the Operations Area<ul style="list-style-type: none">• As a general rule, all persons who come into contact with funds, securities, or the firm's books and records must be fingerprinted

State Registration (Blue Sky Law)

State Registration	NASAA Exams
<p>Registration and examination requirements may also apply on the state level; however, it is dependent on the activities performed by the registered person</p> <ul style="list-style-type: none">▪ If required, the person is tested on the Uniform Securities Act (a model law) through an exam that is created by the North American Securities Administrators Association (NASAA)	<p>NASAA created the following three exams:</p> <ol style="list-style-type: none">1. Series 632. Series 653. Series 66

Continuing Education

Regulatory Element	Firm Element
<ul style="list-style-type: none">▪ Applies to all registered personnel; no grandfathering▪ Initially due by December 31 of the calendar year following the year in which a person became registered and by December 31 of every year thereafter<ul style="list-style-type: none">• If not completed, registration becomes inactive	<ul style="list-style-type: none">▪ On-going training directed by the firm▪ Based on needs assessment▪ Training plan must be re-evaluated annually

RRs serving in the military are exempt from the two-year inactive status limitation that normally applies to registration reinstatement and both elements of continuing education are put on hold.

Activity

Read each statement and determine which document or phrase applies.

DESCRIBES THE RESPONSIBILITIES THAT A FIRM MUST FOLLOW TO CONDUCT BUSINESS	WSP
THE RESULT OF BEING CONVICTED OF A FELONY WITHIN THE PREVIOUS 10 YEARS	Statutory Disqualification.
DOCUMENT THAT MUST BE FILED WITH CRD FOR A PERSON TO BECOME REGISTERED	Form U4
INITIALLY DUE BY DECEMBER 31 OF THE CALENDAR YEAR FOLLOWING THE YEAR IN WHICH A PERSON BECAME REGISTERED AND BY DECEMBER 31 OF EVERY YEAR THEREAFTER	Regulatory Element .

Activity

Which statements are TRUE regarding the registration process? Circle all that apply.

- If allowed through an Eligibility Proceeding, a statutory disqualified person may be hired by a member firm.
- Form U5 provides the reasons for the termination of a previously registered person.
- Only registered representatives are subject to fingerprinting requirements.
- An RR who is serving in the military is still subject to the continuing education requirements.

Chapter 18. Employee Conduct and Reportable Events.

Key Topics

1

FORMS U4, U5,
AND U6

Learn about required
disclosures and
information available on
BrokerCheck.

2

FINRA AND MSRB
INVESTOR
EDUCATION

Learn about how
the SROs provide
information to
investors.

3

CUSTOMER
COMPLAINTS AND
REPORTING
REQUIREMENTS

Learn about how
complaints and
Red Flag issues
are handled.

4

REQUIRED
DISCLOSURES

Learn about the
various disclosures
that associated
persons must make to
firms and the Political
Contribution Rule.

Registration Requirements for the RR

As described in Chapter 17, a person's registration is initiated by filing Form U4 (the Uniform Application for Securities Industry Registration or Transfer)

Form U4 Disclosures	<ul style="list-style-type: none">▪ Personal information, including residential and business history▪ Information related to violations of laws or SRO rules
Disclosure Reporting Page (DRP)	<ul style="list-style-type: none">▪ If a registrant answers "YES" to any legal or disciplinary questions, additional information is required on the DRP
Predispute Arbitration Agreement	<ul style="list-style-type: none">▪ By signing Form U4, an applicant agrees to resolve disputes with his employer, other associated persons, or customers through arbitration

Applicants who file false, incomplete, or misleading information will have their registration revoked

Arbitration Disclosures: means for handling disputes. NOT Rule Violates.
Disputes between firms, employees, customers.

Arbitration Disclosures

Before arbitration begins, firms are required to make the following disclosures to clients:

- The right to sue or to a jury trial is waived with arbitration
- Arbitration awards are **generally final and binding**
- The ability to obtain documents may be more limited
- **Decisions made by arbitrators don't require explanation**
- Arbitration panels may consist of either industry or public arbitrators

For member firm employees, certain claims are not required to be arbitrated, including those related to:

- Discrimination or sexual harassment
- Disputes arising under a whistleblower statute

Farms.

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Form U5 and Form U6

FORM U5	If registration is terminated, Form U5 must be filed within 30 days <ul style="list-style-type: none">▪ Copy provided to the RR▪ Changes to Form U5 must be made within 30 days▪ FINRA must be notified of written complaints that are received after the representative leaves the firm▪ Re-qualification is required if registration is terminated for more than two years (FINRA maintains jurisdiction for those two years)
FORM U6	Form U6 is used to report: <ul style="list-style-type: none">▪ Disciplinary actions against representatives and firms, and▪ Final arbitration awards against representatives and firms

Activity

Match the information to the appropriate Form.



BrokerCheck

This system allows investors to check the background and disciplinary history of their existing or prospective firm or RR, including:

- The RR's current employing firm, the last 10 years of employment history, and all approved registrations
- Any felonies, certain misdemeanors and civil proceedings, and investment-related violations
- Pending customer-initiated arbitrations and civil proceedings involving investment-related activities
- Written customer complaints filed within the last 24 months alleging sales practice violations of \$5,000 or more
- Terminations of employment after allegations involving violations of rules, fraud, theft, or failure to supervise

FINRA Investor Education and Expungement

FINRA's Investor Education	Expungement
<p>FINRA's Investor Education rule requires firms to provide customers with the following information on an annual basis:</p> <ul style="list-style-type: none">▪ FINRA's BrokerCheck hotline number▪ FINRA's website address<ul style="list-style-type: none">• A statement that an investor brochure is available which describes BrokerCheck	<p>Expungement is the process by which customer dispute information is removed from an RR's CRD record</p> <ul style="list-style-type: none">▪ The claim must be factually impossible or erroneous▪ The registered person could not have been involved in the investment-related sales practice violation▪ The claim, allegation, or information is false

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MSRB Investor Education

Annually, MSRB member firms must disclose the following to their customers:

- The **MSRB's website address**
- That they are registered with the MSRB and the SEC
- A statement regarding the availability of a brochure (the Investor Brochure) on the MSRB's website which describes the protections available to customers and the process by which a complaint may be filed with the appropriate regulatory authority

Customer Complaint

Defined as a grievance that's delivered in any written form, including letters, e-mails, IMs, or text messages

- Complaints must be forwarded to a supervisor for review/investigation
- Complaint files, including copies, are maintained in an OSJ along with a report to indicate the action taken to resolve the complaint
- Records are retained for four years
- Quarterly reports are sent to **FINRA** (not the SEC) to provide statistical and summary complaint information

NO
CALLS

Reporting Requirements.

Reporting Requirements

FINRA requires firms to file information relating to certain customer complaints and other incidents involving RRs by no later than within 30 days of discovery. These events include:

▪ Being subject to a customer complaint involving allegations of theft, misappropriation of funds or securities, or forgery	▪ Having been indicted or convicted of, or pleaded guilty or no contest to, any felony or misdemeanor involving securities violations
▪ Violating securities laws or regulations of the government, SRO, financial business or professional organization	▪ Being the subject of a suspension, termination, withholding of commissions, or fines in excess of \$2,500
▪ Having been named as a defendant by a regulator alleging violation of any securities, insurance, or commodities regulation	▪ Being a defendant or respondent in an award or settlement of more than \$15,000

Red Flags

Red Flags	SEC rules emphasize that firms must exhibit reasonable supervision and require supervisors to look for red flag situations <ul style="list-style-type: none">• A Red Flag situation arises if there is any indication of real or potential violations of securities rules
Red Flag Discovery	If an issue is discovered, the following steps must be taken: <ol style="list-style-type: none">1. <i>Investigate the situation</i> – make a reasonable effort to ascertain all relevant facts2. <i>Document the investigation</i> – records must be written3. <i>Pursue the investigation to a conclusion</i> – the matter should be brought to some resolution, which may be that no violation occurred

Activity

Which statements are TRUE regarding information available on BrokerCheck and the process of addressing complaints? Circle all that apply.

- I. BrokerCheck provides information on a registered person's background and disciplinary history.
- II. Expungement is the process of removing complaints from a registrant's history.
- III. An Investor Brochure describes the process by which FINRA handles complaints against individuals.
- IV. FINRA requires customer complaints to be retained for four years.

Outside Business Activities

These outside activities include a registered person serving on a company's board of directors, writing articles for a financial publication on a part-time basis, or bartending on the weekends; however, it does not include volunteer/charity work or hobbies

Requirements	
<p>Written Notice</p> <ul style="list-style-type: none">▪ A registered person must provide prior written notice to her employer to be involved in outside activities if:<ul style="list-style-type: none">• She is being compensated or has a reasonable expectation of being compensated	<p>Update Form U4</p> <ul style="list-style-type: none">▪ Although firm approval is NOT required, the RR must update her Form U4 and the information is disclosed through BrokerCheck

Private Securities Transactions

These are securities transactions that are executed by an associated person outside of her association with a member firm, including both public and private offerings

There are different requirements based on whether compensation will be received

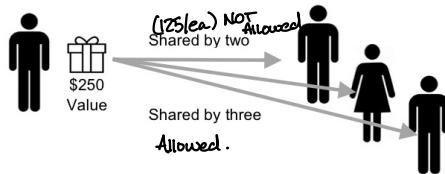
If compensation is to be received:	If NO compensation is to be received:
<p>An RR must obtain his employing firm's written permission and the firm must record the transactions on its books</p> <ul style="list-style-type: none">• Compensation includes commissions, finder's fees, tax benefits, securities, or the right to receive securities	<p>An RR must provide his employing firm with written notice which details the trade and must obtain his firm's written acknowledgement of receipt</p>

• Selling Away: Violation of these terms.

The Gift Limit

Gifts that RRs make to employees who can direct business of their employer back to the RR's firm are limited to \$100 per person, per year

- FINRA approval is NOT required
- FINRA does consider the dollar value and number of intended recipients



The Gift Limit

Rule also applies to gifts and gratuities from mutual fund distributors or wholesalers to B/D salespersons

- Limit may be exceeded for events involving family relationships (e.g., wedding, birth of child)
- If attended by the gift giver, an occasional meal, sporting event, or theater production is exempt as an entertainment/business expense
- Gifts are value based on the greater of their cost or market value



Other Compensation Related Rules

TRAINING AND EDUCATION EXCEPTION	Permits training program offerors (product distributors) to pay or reimburse for meetings which are attended by RRs and serve an educational purpose, if: <ul style="list-style-type: none">▪ RRs have their broker-dealer's permission to attend▪ Attendance is not attached to a sales target▪ Location is appropriate▪ Payments and reimbursements are limited to the RRs (not guests)
IN-HOUSE INCENTIVES	<ul style="list-style-type: none">▪ Non-cash incentives are permitted as long as they're based on total sales, not on the sale of a specific product

Political Contribution Rule – MSRB Rule G-37

This rule addresses political contributions that are made by municipal finance professionals (MFPs) to persons who can direct municipal debt underwriting business

- MFPs include associated persons of a broker-dealer who are primarily engaged in the following activities related to municipal securities:
 - Underwriting
 - Sales
 - Financial advisory or consulting services
 - Research or investment advice
- RRs who recommend municipal securities to retail customers are excluded

MSRB Rule G-37
is the "No Pay to Play Rule"

Rule G-37 – Maximum Contributions and Penalties

The rule places a limitation on contributions (which could include any gift, subscription, loan, advance, or deposit)

MFP Can Vote for Candidate	MFP Cannot Vote for Candidate
An MFP may contribute \$250 per candidate, per election cycle, to candidates for whom he may vote	An MFP may make NO contribution to candidates for whom he may NOT vote
If a violation occurs, a two-year ban is imposed on negotiated underwriting business with the issuer.	

Municipal Finance Professionals

Activity

Read each statement and determine whether it is TRUE/FALSE.

PRIOR WRITTEN NOTICE MUST BE PROVIDED IF AN RR IS BEING COMPENSATED FOR A PART-TIME JOB

FIRMS ARE NOT REQUIRED TO MAINTAIN RECORDS OF COMPENSATION THAT RRs RECEIVE FOR TRANSACTIONS EXECUTED OUTSIDE OF THEIR FIRM

A GIFT VALUED AT \$175 AND GIVEN TO TWO RRs IS ACCEPTABLE

A TRIP TO A LUXURY RESORT AWARDED TO THE RR WHO SELLS THE MOST SHARES OF THE FIRM'S PROPRIETARY MUTUAL FUND IS ACCEPTABLE

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Activity

Which statements are TRUE regarding the MSRB's political contribution rules? Circle all that apply.

- I The rules apply to all municipal registered representatives. *ONLY Municipal Finance Professionals*
- II A \$100 contribution to a candidate for whom an MFP cannot vote is acceptable.
- III A \$250 contribution to a candidate for whom an MFP can vote is acceptable.
- IV A violation results in a two-year ban on negotiated underwriting business.

Chapter 18 Quiz Review.

Form U5 → Firm Filed → FINRA.

↓
COPY
PROVIDED
to REPRESENTATIVE.

Engage in Outside Business Activity? Tell your firm.

Central Registration Depository: Database of members and registered personnel.

Disciplinary Action is reported through U4/U6. Depends.
(firm) (regulatory)

Firms file customer complaints w/ FINRA quarterly.

2 Year Penalty for violating G37.

5 year residential, 10 year employment/bankruptcy. To Register.

Passive Income: No need to file U4. Not an Outside business activity.

Resigning? Notify FINRA in under 30 days w/ a form U-5

