

Reporting Requirements

SEC Approves Consolidated FINRA Rule Governing Reporting Requirements

Effective Date: July 1, 2011

Executive Summary

The SEC approved FINRA's proposal to adopt a rule governing reporting requirements¹ for the consolidated FINRA rulebook.² The new rule, FINRA Rule 4530, is based in large part on NASD Rule 3070, taking into account certain requirements under NYSE Rule 351.³

The text of the new rule is set forth in Attachment A. The new event codes for batch reporting specified events via the Rule 4530 Application are set forth in Attachment B. The rule takes effect on July 1, 2011.

Questions regarding this *Notice* should be directed to Afshin Atabaki, Assistant General Counsel, Office of General Counsel, at (202) 728-8902.

Technical questions regarding the Rule 4530 Application, including testing, should be directed to the FINRA Help Desk, at (800) 321-6273 (if your question relates to testing, please indicate that your question is about a test system issue, and not an actual submission).

Background & Discussion

FINRA Rule 4530, which is modeled after NASD Rule 3070 and NYSE Rule 351, requires member firms to:

- (1) report to FINRA certain specified events and quarterly statistical and summary information regarding written customer complaints; and
- (2) file with FINRA copies of certain criminal actions, civil complaints and arbitration claims.

February 2011

Notice Type

- ▶ Consolidated FINRA Rulebook
- ▶ Rule Approval

Suggested Routing

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

Key Topics

- ▶ Customer Complaints
- ▶ Disclosure Events
- ▶ Filing Requirements
- ▶ Internal Conclusions
- ▶ Reporting Deadlines
- ▶ Reporting Requirements
- ▶ Quarterly Reporting
- ▶ Form U5

Referenced Rules & Notice

- ▶ FINRA Rule 4530
- ▶ Information Notice 3/12/08
- ▶ NASD Rule 3070
- ▶ NYSE Rule 351

FINRA uses the information for regulatory purposes to identify and initiate investigations of firms, offices and associated persons that may pose a risk. The new rule applies to all FINRA member firms. In most cases, the requirements of FINRA Rule 4530 are based on similar requirements in the NASD and NYSE rules. FINRA Rule 4530 strengthens and clarifies these requirements, as explained below.

Internal Conclusions

FINRA Rule 4530(b) requires a member firm to report to FINRA within 30 calendar days after the firm has concluded, or reasonably should have concluded, on its own that the firm or an associated person of the firm has violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization (SRO). This requirement is generally modeled after a requirement in the NYSE rule.

The new rule does not require firms to report every instance of noncompliant conduct. With respect to violative conduct by a firm, this provision requires the firm to report only conduct that has widespread or potential widespread impact to the firm, its customers or the markets, or conduct that arises from a material failure of the firm's systems, policies or practices involving numerous customers, multiple errors or significant dollar amounts.⁴ Regarding violative conduct by an associated person, the provision requires a firm to report only conduct that has widespread or potential widespread impact to the firm, its customers or the markets; conduct that has a significant monetary result on a member firm(s), customer(s) or market(s); or multiple instances of any violative conduct.⁵

For purposes of compliance with the "reasonably should have concluded" standard, FINRA will rely on a firm's good faith reasonable determination. If a reasonable person would have concluded that a violation occurred, then the matter is reportable; if a reasonable person would not have concluded that a violation occurred, then the matter is not reportable.

Additionally, a firm determines the person(s) within the firm responsible for reaching such conclusions, including the person's required level of seniority. However, stating that a violation was of a nature that did not merit consideration by a person of such seniority is not a defense to a failure to report such conduct. Further, it may be possible that a department within a firm reaches a conclusion of violation, but on review senior management reaches a different conclusion. Nothing in the rule prohibits a firm from relying on senior management's determination, provided such determination is reasonable as described above.

Moreover, the reporting obligation under FINRA Rule 4530 and the internal review processes set forth under other rules (*e.g.*, FINRA Rule 3130) are mutually exclusive. While internal review processes may inform a firm's determination that a specific violation occurred, they do not by themselves lead to the conclusion that the matter is reportable.⁶

For example, FINRA would not view a discussion in an internal audit report regarding the need for enhanced controls in a particular area, standing alone, as determinative of a reportable violation. It should also be noted that an internal audit finding would serve only as one factor, among others, that a firm should consider in determining whether a reportable violation occurred.

Lastly, the new rule provides that certain disciplinary actions taken by a firm against an associated person must be reported under a separate provision (discussed below),⁷ rather than under the internal conclusion provision.⁸

Other Reportable Events

In addition to internal conclusions, FINRA Rule 4530 requires a member firm to report to FINRA within 30 calendar days⁹ after the firm knows or should have known¹⁰ of the existence of certain other events relating to the firm or an associated person of the firm. These events are based on existing requirements in NASD Rule 3070 or NYSE Rule 351, with a few modifications as described below.

External Findings

FINRA Rule 4530(a)(1)(A) requires the reporting of certain external findings similar to the NASD rule,¹¹ but limits the scope of the requirement to where the firm or an associated person has been found¹² by an external body¹³ to have violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body, SRO or business or professional organization.¹⁴

Complaints Involving Certain Allegations

FINRA Rule 4530(a)(1)(B) requires that a firm report any written customer complaint against the firm or an associated person alleging theft or misappropriation of funds or securities or forgery. The new rule clarifies that, for purposes of this requirement, a “customer” includes any person (other than a broker or dealer) with whom the firm has engaged, or *has sought to engage*, in securities activities.¹⁵ Further, it codifies existing staff guidance reminding firms to report quarterly statistical and summary information regarding such complaints.¹⁶

Named in a Regulatory Proceeding; Subject to Other Regulatory Actions; or Associated with a Financial Entity Subject to Certain Actions

FINRA Rules 4530(a)(1)(C), (D) and (F) generally require firms to report whenever they or their associated persons are:

- (1) named as a defendant or respondent in a regulatory proceeding alleging the violation of securities, insurance or commodities laws, rules or regulations;
- (2) denied registration or membership or disciplined by a securities, insurance or commodities regulator; or
- (3) associated with certain financial entities that were denied registration, suspended, expelled or had their registration revoked by a regulator or associated with a financial institution that was convicted of, or pleaded no contest to, any felony or misdemeanor.

These provisions apply to domestic and foreign matters,¹⁷ including actions by a foreign regulatory body or, in the case of criminal actions, actions brought in a foreign court. The term “regulatory body,” which is used in these provisions and the provisions relating to internal conclusions and external findings,¹⁸ is defined as a governmental regulatory body or an authorized non-governmental regulatory body, such as the Financial Services Authority.¹⁹

Criminal Actions Involving Felonies and Certain Misdemeanors

FINRA Rule 4530(a)(1)(E) generally requires that a firm report any indictment, conviction, or guilty or no contest plea of the firm or an associated person involving:

- (1) any felony or certain misdemeanors, such as a misdemeanor involving the purchase or sale of a security or involving forgery;
- (2) a conspiracy to commit any of these offenses; or
- (3) substantially equivalent actions.

Civil Litigation; Arbitration Matters; or Certain Claims for Damages

FINRA Rule 4530(a)(1)(G) generally requires that a firm submit a report if it or an associated person is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration, or is subject to a claim for damages by a customer, broker or dealer, that is disposed of for certain dollar thresholds (above \$15,000 for associated persons; above \$25,000 for firms).

The new rule extends this requirement to any financial-related insurance civil litigation or arbitration. “Financial-related” means related to the provision of financial services. By its terms, the rule excludes certain insurance products, such as traditional auto and health

insurance. However, the scope of the rule is not limited to insurance products that are securities. Civil litigation or arbitration involving a non-securities insurance product that is related to the provision of financial services is subject to the rule.

Additionally, the new rule limits the scope of the requirement to report certain claims for damages by requiring the reporting of claims that relate to the provision of financial services or relate to a financial transaction, such as a loan by a customer to an associated person.

When calculating the dollar thresholds for reporting civil litigations, arbitrations or claims for damages subject to reporting, the new rule requires firms to include attorney's fees and interest.²¹ Further, it codifies existing staff guidance regarding "joint and several" liability.²² If parties are subject to "joint and several" liability, firms must use the aggregate dollar amount for reporting purposes since each party is separately liable for the aggregate amount. For instance, if two parties have "joint and several" liability for \$40,000, the amount reported would be \$40,000 for *each* party.

Statutory Disqualifications

FINRA Rule 4530(a)(1)(H) requires that firms report certain "statutory disqualification" matters. The rule provides that a firm is required to report whenever the firm or an associated person is subject to a "statutory disqualification." In addition, it provides that firms are required to report whenever they or their associated persons are "involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities" with any person who is subject to a "statutory disqualification."²³

Disciplinary Actions Taken by a Firm Against an Associated Person

FINRA Rule 4530(a)(2) requires that a firm report any disciplinary action taken by the firm against an associated person involving a suspension or termination, the imposition of fines above \$2,500, or any other disciplinary action that would have a significant limitation on the associated person's activities. The rule clarifies that any disciplinary action involving the withholding of compensation or of any other remuneration above \$2,500 is also reportable.²⁴

Obligation of Associated Persons

Under FINRA Rule 4530(c), associated persons continue to have an obligation to promptly report to their member firms the existence of the events described above. The new rule clarifies that this obligation does not extend to internal conclusions and disciplinary actions taken by a firm against an associated person.

Exception for Information Disclosed on the Form U5

FINRA Rule 4530(e) provides, similar to the NASD rule, that firms and associated persons have a separate obligation to disclose required information on the Uniform Forms, as applicable, to make any other required filings and to respond to FINRA with respect to any customer complaint, examination or inquiry. Further, the new rule clarifies that the reporting obligations under the rule apply regardless of whether the information is reported or disclosed pursuant to any other rule or requirement.

However, the rule creates an exception for information disclosed on the Form U5. More specifically, a firm is not required to report an event otherwise required to be reported under the provisions discussed above if the firm discloses the event on the Form U5, consistent with the requirements of that form.²⁵ This exception does not extend to the reporting of quarterly statistical and summary complaint information, which is addressed below.

Reporting an Event Under the Most Appropriate Provision

Member firms have an obligation to report an event under the most appropriate provision of FINRA Rule 4530 and not to report the same event under more than one provision.²⁶ The rule recognizes that related events may have to be reported under more than one provision, such as being named as a respondent in an SRO proceeding alleging violation of the SRO's rules and subsequently found to have violated those rules.

Quarterly Statistical and Summary Complaint Information

FINRA Rule 4530(d) retains the requirement of the NASD and NYSE rules that firms report quarterly statistical and summary written customer complaint information, with the following modification. If a firm *has engaged in securities activities* with a person (other than a broker or dealer), the firm is required to report *any written grievance* by such person involving the firm or an associated person.²⁷ If a firm *has sought to engage in securities activities* with a person (other than a broker or dealer), the firm is only required to report *any securities-related written grievance* by such prospective customer involving the firm or an associated person or any written complaints alleging theft or misappropriation of funds or securities or forgery.²⁸

Obligation to Report Matters Relating to Former Associated Persons

Under the new rule, a firm is required to report a matter relating to a former associated person if it occurred while the person was associated with the firm.²⁹ If a firm, however, becomes aware of a matter, but based on its records or information available through Web CRD® the firm cannot determine that the person was an associated person of the firm, the firm is not obligated to report it.³⁰

Filing Requirements

FINRA Rule 4530(f) keeps the requirement of the NASD rule that firms promptly file with FINRA copies of certain: (1) criminal complaints and plea agreements; (2) civil complaints; and (3) arbitration claims. FINRA Rule 4530 extends this filing requirement to any financial-related insurance civil complaint filed against the firm or any financial-related insurance arbitration claim against the firm. FINRA Rule 4530(g) retains the exception for any arbitration claim that is originally filed in the FINRA Dispute Resolution forum and for those documents that have already been requested by FINRA's Registration and Disclosure (RAD) staff, provided that the firm produces those requested documents to RAD staff within 30 days after receipt of such request.

Technical Changes to Reporting Application

Member firms should continue to report specified events and quarterly statistical and summary information on written customer complaints via the Regulatory Filings Application on the FINRA Firm Gateway.³¹ Beginning July 1, 2011, the application will be renamed the Rule 4530 Application.

Firms must use new event codes for batch reporting specified events on or after July 1, 2011. The new codes are 11 through 20, and are described in detail in Attachment B. The old event codes, 01 through 10, will continue to be available for amending batch events that were reported prior to July 1, 2011, pursuant to NASD Rule 3070 or NYSE Rule 351. There are no changes to the codes for reporting quarterly statistical and summary information regarding written customer complaints.

Beginning June 6, 2011, firms will have an opportunity to test the new event codes for batch reporting through FINRA's test site at: <https://regfilingtest.finra.org>.

Effective Date

Any matter that becomes subject to reporting³² or filing prior to July 1, 2011, must be reported or filed in accordance with the requirements of NASD Rule 3070 and NYSE Rule 351, as applicable, including the reporting and filing deadlines of those rules. Any matter that becomes subject to reporting or filing on or after July 1, 2011, must be reported or filed in accordance with the requirements of FINRA Rule 4530.

For purposes of compliance with FINRA Rule 4530(d) (quarterly statistical and summary complaint information), starting on July 1, 2011, the beginning of the third calendar quarter, firms must report such information in accordance with the requirements of the new rule. The first report based on the requirements of FINRA Rule 4530(d) is due by October 15, 2011, which is the reporting deadline for customer complaints received during the third calendar quarter.

Endontes

- 1 See Securities Exchange Act (SEA) Release No. 63260 (November 5, 2010), 75 FR 69508 (November 12, 2010) (Notice of Filing of Amendment Nos. 1 and 2 and Order Granting Accelerated Approval to Proposed Rule Change; File No. SR-FINRA-2010-034).
- 2 The current FINRA rulebook consists of: (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE (Incorporated NYSE Rules) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the Transitional Rulebook). While the NASD Rules generally apply to all FINRA member firms, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (Dual Members). The FINRA Rules apply to all FINRA member firms, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see *Information Notice 03/12/08* (Rulebook Consolidation Process). For convenience, the Incorporated NYSE Rules are referred to as the NYSE Rules.
- 3 FINRA Rule 4530 replaces NASD Rule 3070 and the corresponding provisions in NYSE Rule 351. Accordingly, effective July 1, 2011, NASD Rule 3070, paragraphs (a) through (d) of NYSE Rule 351, and NYSE Rules 351.10 and 351.13 will be deleted from the Transitional Rulebook.
- 4 See FINRA Rule 4530.01.
- 5 *Id.*
- 6 During the rulemaking process, some commenters asked whether a settlement with a customer creates the presumption that a reportable violation has occurred. FINRA reiterates that it is not the fact that a firm has settled a matter that makes it a reportable event under the rule; rather, it is whether the firm has reached an internal conclusion or reasonably should have reached an internal conclusion that the firm or an associated person has engaged in the enumerated violative conduct. Firms should note that certain settlements will have to be reported based on other reporting requirements (*e.g.*, securities-related civil litigation settled for certain dollar thresholds set forth in the rule).
- 7 See FINRA Rule 4530(a)(2).
- 8 See FINRA Rule 4530.01.
- 9 The reporting deadline under NASD Rule 3070 is 10 business days. The reporting deadline under NYSE Rule 351 is 30 calendar days, which is also consistent with the reporting deadline for disclosing information on the Forms BD (Uniform Application for Broker-Dealer Registration), U4 (Uniform Application for Securities Industry Registration or Transfer) and U5 (Uniform Termination Notice for Securities Industry Registration) (collectively referred to as the Uniform Forms).
- 10 The purpose of the “should have known” standard is to ensure that member firms do not intentionally avoid becoming aware of a reportable event.
- 11 NASD Rule 3070 extends to a finding of violation of “any” rule or standard of conduct of “any” governmental agency, SRO, or financial business or professional organization.
- 12 FINRA Rule 4530.03 defines the term “found” generally consistent with the definition of the term in the Uniform Forms. In addition, the term includes any formal finding (regardless of whether the finding will be appealed), but it does not include a minor rule violation involving a fine of \$2,500 or less.

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Endontes continued

- 13 An external body includes, but is not limited to, a court, domestic or foreign regulatory body, SRO or business or professional organization. See FINRA Rule 4530.02.
- 14 During the rulemaking process, FINRA provided the following examples of the types of reportable external findings: (1) court finding relating to the violation of insurance laws; (2) finding of violation of an SRO's just and equitable principles of trade rule, such as FINRA Rule 2010; or (3) finding of violation of the Code of Professional Conduct of the American Institute of Certified Public Accountants. These examples are provided for illustrative purposes and are not exhaustive.
- 15 See FINRA Rule 4530.08.
- 16 *Id.*
- 17 Other provisions of FINRA Rule 4530 also apply to domestic and foreign matters, including the provisions relating to internal conclusions, external findings and criminal actions involving felonies and certain misdemeanors. See FINRA Rules 4530(a)(1)(A), (a)(1)(E) and (b).
- 18 See FINRA Rules 4530(a)(1)(A) and (b).
- 19 See FINRA Rule 4530.04.
- 20 See FINRA Rule 4530.09. The term "financial-related" is also used in other provisions, including the provisions regarding internal conclusions, external findings and filing requirements. See FINRA Rules 4530(a)(1)(A), (b) and (f).
- 21 See FINRA Rule 4530.06. Based on FINRA's experience, some firms have considered structuring settlements using attorney's fees to avoid the dollar thresholds for reporting. The inclusion of attorney's fees and interest is intended to address this concern.
- 22 See *id.*
- 23 The requirement in the NASD and NYSE rules is based on whether the firm or associated person is "associated in any business or financial activity" with a person who is subject to a "statutory disqualification."
- 24 The requirement in the NASD and NYSE rules is limited to the withholding of *commissions* above \$2,500.
- 25 While this exception only applies to information that is disclosed on the Form U5, FINRA will work toward the goal of extending this exception to information that is disclosed on the Forms BD and U4.
- 26 See FINRA Rule 4530.05.
- 27 See FINRA Rule 4530.08.
- 28 See *id.*
- 29 See FINRA Rule 4530.07.
- 30 Firms are reminded that records relating to associated persons must be preserved consistent with the requirements of SEA Rule 17a-4(e)(1).
- 31 In general, firms should report the information in their custody, possession or control or to which they have knowledge and provide an explanation in the appropriate Rule 4530 Application fields of the information that they were unable to obtain due to circumstances beyond their control, with the understanding that firms cannot intentionally avoid becoming aware of a reportable event.
- 32 Firms should continue to use the Regulatory Filings Application on the FINRA Firm Gateway for purposes of reporting such matters.

ATTACHMENT A

Below is the text of the new FINRA rule.

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4530. Reporting Requirements

(a) Each member shall promptly report to FINRA, but in any event not later than 30 calendar days, after the member knows or should have known of the existence of any of the following:

(1) the member or an associated person of the member:

(A) has been found to have violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body, self-regulatory organization or business or professional organization;

(B) is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery;

(C) is named as a defendant or respondent in any proceeding brought by a domestic or foreign regulatory body or self-regulatory organization alleging the violation of any provision of the Exchange Act, or of any other federal, state or foreign securities, insurance or commodities statute, or of any rule or regulation thereunder, or of any provision of the by-laws, rules or similar governing instruments of any securities, insurance or commodities domestic or foreign regulatory body or self-regulatory organization;

(D) is denied registration or is expelled, enjoined, directed to cease and desist, suspended or otherwise disciplined by any securities, insurance or commodities industry domestic or foreign regulatory body or self-regulatory organization or is denied membership or continued membership in any such self-regulatory organization; or is barred from becoming associated with any member of any such self-regulatory organization;

(E) is indicted, or convicted of, or pleads guilty to, or pleads no contest to, any felony; or any misdemeanor that involves the purchase or sale of any security, the taking of a false oath, the making of a false report, bribery, perjury, burglary, larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds, or securities, or a conspiracy to commit any of these offenses, or substantially equivalent activity in a domestic, military or foreign court;

(F) is a director, controlling stockholder, partner, officer or sole proprietor of, or an associated person with, a broker, dealer, investment company, investment advisor, underwriter or insurance company that was suspended, expelled or had its registration denied or revoked by any domestic or foreign regulatory body, jurisdiction or organization or is associated in such a capacity with a bank, trust company or other financial institution that was convicted of or pleaded no contest to, any felony or misdemeanor in a domestic or foreign court;

(G) is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration, is a defendant or respondent in any financial-related insurance civil litigation or arbitration, or is the subject of any claim for damages by a customer, broker or dealer that relates to the provision of financial services or relates to a financial transaction, and such civil litigation, arbitration or claim for damages has been disposed of by judgment, award or settlement for an amount exceeding \$15,000. However, when the member is the defendant or respondent or is the subject of any claim for damages by a customer, broker or dealer, then the reporting to FINRA shall be required only when such judgment, award or settlement is for an amount exceeding \$25,000; or

(H) is, or is involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities with any person who is, subject to a “statutory disqualification” as that term is defined in the Exchange Act. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification; or

(2) an associated person of the member is the subject of any disciplinary action taken by the member involving suspension, termination, the withholding of compensation or of any other remuneration in excess of \$2,500, the imposition of fines in excess of \$2,500 or is otherwise disciplined in any manner that would have a significant limitation on the individual’s activities on a temporary or permanent basis.

(b) Each member shall promptly report to FINRA, but in any event not later than 30 calendar days, after the member has concluded or reasonably should have concluded that an associated person of the member or the member itself has violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization.

(c) Each person associated with a member shall promptly report to the member the existence of any of the events set forth in paragraph (a)(1) of this Rule.

(d) Each member shall report to FINRA statistical and summary information regarding written customer complaints in such detail as FINRA shall specify by the 15th day of the month following the calendar quarter in which customer complaints are received by the member.

(e) Nothing contained in this Rule shall eliminate, reduce or otherwise abrogate the responsibilities of a member or person associated with a member to promptly disclose required information on the Forms BD, U4 or U5, as applicable, to make any other required filings or to respond to FINRA with respect to any customer complaint, examination or inquiry. In addition, members are required to comply with the reporting obligations under paragraphs (a), (b) and (d) of this Rule, regardless of whether the information is reported or disclosed pursuant to any other rule or requirement, including the requirements of the Forms BD or U4. However, a member need not report an event otherwise required to be reported under paragraphs (a) or (b) of this Rule if the member discloses the event on the Form U5, consistent with the requirements of that form.

(f) Each member shall promptly file with FINRA copies of:

(1) any indictment, information or other criminal complaint or plea agreement for conduct reportable under paragraph (a)(1)(E) of this Rule;

(2) any complaint in which a member is named as a defendant or respondent in any securities- or commodities-related private civil litigation, or is named as a defendant or respondent in any financial-related insurance private civil litigation;

(3) any securities- or commodities-related arbitration claim, or financial-related insurance arbitration claim, filed against a member in any forum other than the FINRA Dispute Resolution forum;

(4) any indictment, information or other criminal complaint, any plea agreement, or any private civil complaint or arbitration claim against a person associated with a member that is reportable under question 14 on Form U4, irrespective of any dollar thresholds Form U4 imposes for notification, unless, in the case of an arbitration claim, the claim has been filed in the FINRA Dispute Resolution forum.

(g) Members shall not be required to comply separately with paragraph (f) in the event that any of the documents required by paragraph (f) have been the subject of a request by FINRA's Registration and Disclosure staff, provided that the member produces those requested documents to the Registration and Disclosure staff not later than 30 days after receipt of such request. This paragraph does not supersede any FINRA rule or policy that requires production of documents specified in paragraph (f) sooner than 30 days after receipt of a request by the Registration and Disclosure staff.

• • • **Supplementary Material:** -----

.01 Reporting of Firms' Conclusions of Violations. For purposes of paragraph (b) of this Rule, with respect to violative conduct by a member, FINRA expects a member to report only conduct that has widespread or potential widespread impact to the member, its customers or the markets, or conduct that arises from a material failure of the member's systems, policies or practices involving numerous customers, multiple errors or significant dollar amounts. With respect to violative conduct by an associated person, FINRA expects a member to report only conduct that has widespread or potential widespread impact to the member, its customers or the markets, conduct that has a significant monetary result with respect to a member(s), customer(s) or market(s), or multiple instances of any violative conduct. In addition, with respect to violative conduct by an associated person, the reporting obligation under paragraph (b) must be read in conjunction with the reporting obligation under paragraph (a)(2) of this Rule. If a member has concluded that an associated person has engaged in violative conduct and imposes the discipline set forth under paragraph (a)(2) of this Rule, then the member is required to report the event under paragraph (a)(2), and it need not report the event under paragraph (b).

.02 Firms' Conclusions of Violations versus External Findings. Members should be aware that paragraph (b) of this Rule is limited to situations where the member has concluded or reasonably should have concluded on its own that violative conduct has occurred. Paragraph (a)(1)(A) of this Rule is limited to situations where there has been a finding of violative conduct by an external body, such as a court, domestic or foreign regulatory body, self-regulatory organization or business or professional organization.

.03 Meaning of “Found.” The term “found” as used in paragraph (a)(1)(A) of this Rule includes among other formal findings, adverse final actions, including consent decrees in which the respondent has neither admitted nor denied the findings, but does not include informal agreements, deficiency letters, examination reports, memoranda of understanding, cautionary actions, admonishments and similar informal resolutions of matters. For example, a Letter of Acceptance, Waiver and Consent or an Offer of Settlement is considered an adverse final action. The term “found” also includes any formal finding, regardless of whether the finding will be appealed. The term “found” does not include a violation of a self-regulatory organization rule that has been designated as “minor” pursuant to a plan approved by the SEC, if the sanction imposed consists of a fine of \$2,500 or less, and if the sanctioned person does not contest the fine.

.04 Meaning of “Regulatory Body.” For purposes of this Rule, the term “regulatory body” refers to governmental regulatory bodies and authorized non-governmental regulatory bodies, such as the Financial Services Authority.

.05 Reporting of Individual and Related Events. With respect to a reportable event under paragraphs (a) or (b) of this Rule, members should not report the same event under more than one paragraph or subparagraph. Members should report the event under the most appropriate paragraph or subparagraph. However, members should be aware that they may be required to report related events under more than one paragraph or subparagraph. For instance, if a member is named as a respondent in a proceeding brought by a self-regulatory organization alleging the violation of the self-regulatory organization’s rules, the member would be required to report that event under paragraph (a)(1)(C) of this Rule. In addition, if the member subsequently is found to have violated the self-regulatory organization’s rules, the member would be required to report that finding under paragraph (a)(1)(A) of this Rule.

.06 Calculation of Monetary Thresholds. For purposes of paragraph (a)(1)(G) of this Rule, when determining the dollar amount that would require a report, members must include any attorneys fees and interest in the total amount. In addition if the parties are subject to “joint and several” liability, the amount for each party must be aggregated and reported, if above the dollar thresholds under paragraph (a)(1)(G), as if each party is separately liable for the aggregated amount. For instance, if two parties have “joint and several” liability for \$40,000, the amount reported would be \$40,000 for each party.

.07 Former Associated Persons. For purposes of paragraphs (a), (b) and (d) of this Rule, members should report an event relating to a former associated person if the event occurred while the individual was associated with the member. A member is not required to report such an event where, based on its records or information available through Web CRD, the member cannot determine that the person was an associated person of the member.

.08 Customer Complaints. For purposes of paragraph (a)(1)(B) of this Rule, a “customer” includes any person, other than a broker or dealer, with whom the member has engaged, or has sought to engage, in securities activities. Any written customer complaint reported under paragraph (a)(1)(B) of this Rule also must be reported pursuant to paragraph (d) of this Rule. For purposes of paragraph (d) of this Rule, with respect to a person, other than a broker or dealer, with whom the member has engaged in securities activities, the member must report any written grievance by such person involving the member or a person associated with the member. In addition, with respect to a person, other than a broker or dealer, with whom the member has sought to engage in securities activities, the member must report any securities-related written grievance by such person involving the member or a person associated with the member and any written complaint reportable under paragraph (a)(1)(B) of this Rule.

.09 Financial Related. For purposes of this Rule, the term “financial related” means related to the provision of financial services.

* * * * *

ATTACHMENT B**New Event Codes for Batch Reporting Pursuant to FINRA Rule 4530**

Event Code	Paragraph	Description
11	(a)(1)(A)	External Finding
12	(a)(1)(B)	Customer Complaint Involving Certain Allegations
13	(a)(1)(C)	Named in a Regulatory Proceeding
14	(a)(1)(D)	Subject to Other Regulatory Actions
15	(a)(1)(E)	Criminal Actions Involving Felonies and Certain Misdemeanors
16	(a)(1)(F)	Associated with a Financial Entity Subject to Certain Actions
17	(a)(1)(G)	Civil Litigation; Arbitration Matters; or Certain Claims for Damages
18	(a)(1)(H)	Statutory Disqualification
19	(a)(2)	Disciplinary Action Taken by a Firm Against an Associated Person
20	(b)	Internal Conclusion