



Disclosure Video Series

Regulatory Action, Investigation, and Statutory Disqualification

June 28, 2022

Agenda

- 01 | FINRA Gateway Demo – Dynamic Reports
- 02 | Regulatory Action and Investigation Reporting
- 03 | Investigation and Regulatory Action DRP Demo
- 04 | Statutory Disqualification (SD) Implications
- 05 | Questions & Answers

FINRA Gateway Demo – Dynamic Reports



U4 Regulatory Action Disclosure Questions

14C - SEC & CFTC Actions

- Willful Violations
- Failure to Supervise

14D – Other Federal, State, and Foreign Financial Regulatory Actions

- S-Ox Bars
- S-Ox FMD's

14E – SRO Actions

- Willful Failure to Disclose
- Failure to Supervise

14F – Authorization to act ... revoked or suspended

14G – Pending Matters ...

- (1) Complaints and *Proceedings* should be reported on the Regulatory Action DRP
- (2) *Investigations* should be reported on the Investigation DRP

U5 Regulatory Action Disclosure Questions

7A – Investigation Disclosure

“Currently is, or at termination was, the individual the subject of an *investigation or proceeding ...*”

- *Proceedings* should be reported on the Regulatory Action DRP
- *Investigations* should be reported on the Investigation DRP

7D – Regulatory Action Disclosure

“While employed by or associated with your *firm*, or in connection with events that occurred while the individual was employed by or associated with your *firm*, was the individual *involved* in any *disciplinary action ...*”

- All matters should be reported on the Regulatory Action DRP

Investigation defined

Investigation includes:

- ✓ Grand jury investigations
- ✓ SEC investigations after the "Wells" notice has been given
- ✓ FINRA investigations after the "Wells" notice has been given
- ✓ NYSE Regulation investigations after the "Wells" notice has been given
- ✓ Formal investigations by other SROs
- ✓ Actions or procedures designated as investigations by jurisdictions

Investigation does not include:

- ✗ Subpoenas
- ✗ Preliminary or routine regulatory inquiries or requests for information
- ✗ Deficiency letters
- ✗ "Blue sheet" requests or other trading questionnaires
- ✗ Examinations

- ✗ **REGULATORY ACTIONS!**

Investigation & Regulatory Action DRP Demo



Regulatory Action – Document Follow-up

Documents **not** required for:

- X SEC & CFTC
- X FINRA & NYSE
- X Other SROs/Exchanges
NOTE: Except CBOE

Documents **are** required for:

- ✓ State Regulators
- ✓ Other Federal Regulators
- ✓ Foreign Regulators
NOTE: Submit a certified English translation

*Important: Reg Action Documents
must be complete & signed by all parties!*

Statutory Disqualification (SD)

SD Definition: Section 3(a)(39) of the Exchange Act

Common regulatory sanctions and/or findings that may lead to disqualification:

- Bars, suspensions, revocations, expulsions
- Willful false statements or omissions of material information
- Final state orders issuing a bar or based on fraudulent, manipulative or deceptive conduct (FMD)
- Willful violations of federal securities laws and regulations
- Failure to supervise an individual who violated federal securities laws

See <https://www.finra.org/rules-guidance/guidance/eligibility-requirements> for more details

Statutory Disqualification Process

1. Determination and Notification of SD Status

[A full list of SD Codes is available here](#)

2. Receipt & Review of MC-400 Application by CRED

3. Review by Member Supervision's SD Group

See <https://www.finra.org/rules-guidance/guidance/eligibility-requirements>

for next steps and additional details

Tips and Best Practices

1. Individual reporting is required on Form U4 or U5.
2. Answer all applicable questions “Yes” – more than one often applies.
3. Be sure to complete the correct DRP.
4. Disclose reportable matters in a timely manner.
5. Be sure to update DRPs in a timely manner as matters progress.
6. Ensure descriptions are complete, accurate, and understandable.
7. Ensure the Sanction Details are complete and accurate.
8. Avoid reporting sensitive, personal, and/or confidential information.
9. Be mindful of DRP comments; amend/update when necessary.
10. Submit documents as required.

Resources

Form U4 and Form U5 Instructions

Explanations of Terms

- *Investment-related*
- *Investigation*
- *Found*
- *Final Order*

Form U4 and U5 Interpretive Questions and Answers

- Please do not upload or email this document to Disclosure Review



For questions regarding specific disclosure reporting issues,
Call [301-869-6699](tel:301-869-6699), [Option 4](#) for Disclosure Review