

## Overview of the U.S. Broker-Dealer Registration Process

This review summarizes federal, state and self-regulatory organization (“SRO”) requirements associated with registering a broker-dealer in the United States and one or more states. It also provides an overview of the process for obtaining approval of such registration, and a list of key regulatory obligations applicable to the operation of a broker-dealer.

In brief, in the United States, a broker-dealer must register with the U.S. Securities and Exchange Commission (“SEC”) and become a member the Financial Industry Regulatory Authority (“FINRA”). A broker-dealer applies for SEC registration and FINRA membership by filing application materials with FINRA through its Web CRD system.<sup>1</sup>

### I. SEC Registration and FINRA Membership

The following list outlines information and documentation needed for registration with the SEC and membership in FINRA. Most of these materials may be submitted to FINRA in electronic form, though some, such as initial documents and fingerprint cards, are submitted in hard copy. Sample forms and application guides can be found at [www.finra.org](http://www.finra.org), and at [www.sec.gov](http://www.sec.gov).

#### *SEC and FINRA Forms*

1. A completed and signed Form NMA (New Member Application).

*All applications for FINRA membership must be submitted online via the form NMA once access is granted to FINRA’s “Firm Gateway” (which allows electronic submission of forms and reports). The Form NMA is an interactive, user-friendly document that is meant to provide a tailored application experience.*

2. One originally signed and notarized Form BD, with applicable schedules.

*Form BD is the uniform application for broker-dealer registration. On this Form, applicants provide information about their businesses, including details regarding ownership and the types of brokerage business that they plan to conduct. Business activities are also described in other membership application materials, and are later detailed in the ultimate membership agreement that members enter into with FINRA.*

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<sup>1</sup> Certain activities require additional licenses and approvals from other regulators, such as acting as a municipal securities broker or dealer (Municipal Securities Rulemaking Board membership required), government securities dealer, or futures commission merchant (Commodity Futures Trading Commission and National Futures Association approvals/membership required).

*An applicant must initially submit this form in hard copy to FINRA's Registration and Disclosure Department. All amendments to Form BD are subsequently filed electronically via Web CRD<sup>2</sup> once access is granted to the Firm Gateway.*

3. A Form U4 for each "Associated Person"<sup>3</sup> that is a natural person required to register as a principal and/or representative.

*The Form U4 is the uniform application for securities industry registration or transfer and is used by FINRA, other SROs and states to elicit employment background, disciplinary and other information to register individuals with appropriate SRO(s) and/or jurisdiction(s).*

4. One fingerprint card for each Associated Person.<sup>4</sup>
5. A Form BR for the applicant's main office and branch office locations.
6. One completed New Members Assessment Report (for determining membership fees).
7. One originally signed FINRA Entitlement Program<sup>5</sup> Agreement and Terms of Use.
8. Originally signed and dated FINRA Member Firm Super Account Administrator Entitlement Form designating a Super Account Administrator.
9. One originally signed and dated Member Firm Email Notification Contact Form.

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<sup>2</sup> FINRA's automated Web CRD system was developed with state securities regulators so that applicants may use a single form and combined payment to apply for registration and membership in multiple jurisdictions and SROs. It consists of a central registration information data bank and an application-processing facility, with each of its regulatory participants linked to the central facility through a nationwide network of Web-based, online terminals.

<sup>3</sup> FINRA rules define the term "Associated Person" to mean: (1) a natural person registered with FINRA; or (2) a sole proprietor, or any partner, officer, director, branch manager of the applicant, or any person occupying a similar status or performing similar functions; (3) any company, government or political subdivision or agency or instrumentality of a government controlled by or controlling the applicant; (4) any employee of the applicant, except any person whose functions are solely clerical or ministerial; (5) any person directly or indirectly controlling the applicant whether or not such person is registered or exempt from registration under FINRA rules; (6) any person engaged in investment banking or securities business controlled directly or indirectly by the applicant whether such person is registered or exempt from registration under FINRA rules; or (7) any person who will be or is anticipated to be a person described in (1) through (6) above.

<sup>4</sup> All broker-dealers must require that their partners, directors, officers and employees be fingerprinted and must submit the fingerprints to the FBI for identification. There is an exception for persons who (1) do not actively participate in the sale of securities; (2) have no regular access to the keeping, handling or processing of securities, monies or original books and records related to securities or monies; and (3) have no supervisory responsibility over persons engaged in any of the foregoing activities, provided that a statement containing information related to persons claiming an exception is maintained by the broker-dealer.

<sup>5</sup> The FINRA Entitlement Program provides a secure way to access the Firm Gateway with a shared entitlement service. This service provides authorized users the ability to access these systems with a single FINRA User ID and Password. Currently, there are more than 20 FINRA applications available via this shared entitlement platform and more applications will be added in the future.

## ***Business Plan***

1. A detailed business plan that describes all material aspects of what will be (or is reasonably anticipated to be), performed after operations begin, including the types of activities, in what capacity the applicant will act, type of accounts to be accepted, clearance and settlement arrangements, marketing plans, expansions, etc.

## ***Qualification of Associated Persons***

1. A list with the name and CRD number of each proposed Associated Person of the applicant, including the following: (1) title; (2) CRD number; (3) a statement as to whether the individual will be registered as a principal or representative of the applicant; (4) the registration and licenses the individual has or intends to obtain; and (5) the scheduled date of exam(s).

*As part of the application process, principals and registered persons associated with a broker-dealer who would have any contact with U.S. customers or would be engaged in the securities or investment banking businesses, must take certain qualifying examinations. In general, registered representatives must pass the Series 7 examination and assistant representatives accepting unsolicited customer orders for processing must pass the Series 11.<sup>6</sup> A broker-dealer will be required to register at least two officers as fully qualified general securities principals (“GSPs”). GSPs must pass the Series 7 and 24 examinations. One of the GSPs must serve as a Chief Compliance Officer. In addition, the broker-dealer will be required to register one fully qualified financial and operations principal (“FinOp”): the FinOp must pass either the Series 27 examination or Series 28 examination (for introducing broker-dealers). The FinOp can be supplied by an outside consulting firm, if desired. Most registered principals and representatives are must also pass the state securities examination (Series 63).*

2. A description of the number, experience, and qualifications of supervisors and principals, as well as the number, experience, and qualifications of persons to be supervised, the other responsibilities of the supervisors and principals with the applicant, their full-time or part-time status, any business activities that the supervisors or principals may engage in outside of their association with the applicant, the hours per week devoted to such activities, and an explanation of how a part-time supervisor or principal will be able to discharge their functions.
3. A description of the duties and responsibilities of any non-registered officers, directors, owners, and control persons. A director or officer of a broker-dealer who is not engaged in the supervision or conduct of the broker-dealer’s securities business (for example, a nominal corporate officer) may apply for a waiver of the requirement

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<sup>6</sup> Other registered representative functions, such as research analysts, equity traders and investment banking personnel, require additional qualifications.

to register. FINRA requires such persons to file a written acknowledgment that they will not engage in activities requiring registration.

4. List of all outside business activities for all Associated Persons (including activities with an affiliate) and copies of notices evidencing approval of such by the applicant's Chief Compliance Officer.
5. A description of the applicant's ownership structure (and related organization charts).

### ***Regulatory/Disciplinary History***

1. Descriptions and underlying documentation regarding disciplinary matters, violations of laws or regulations, investment-related civil actions, complaints, arbitrations, pending investigations, and the like.

### ***Agreements/Contracts***

1. A copy of final or proposed contracts with banks, clearing entities, or service bureaus, and a general description of any other final or proposed contracts.
2. A copy of any wholesaler or other selling agreement.
3. A copy of any soft dollar agreement.
4. A copy of any expense sharing agreements.

*In some cases, a parent or other affiliate may choose to assist a broker-dealer by providing it with certain services or goods without charge, such as office space or other related utilities. FINRA permits such arrangements but requires documentation in writing. The agreement must clearly delineate which expenses the broker-dealer is not responsible for paying or for repaying, and it must be signed by both parties.*

5. Description of any arrangement(s) for accounting services, including:
  - Designation of Accountant Notice which needs to be filed with the SEC and FINRA in accordance with SEC Rule 17a-5(f)(2).
  - Copy of audit engagement letter signed by the applicant's accountant pursuant to SEC Rule 17a-5(f)(2).
  - Description of accounting services to be provided by auditor (or other consultant) other than the annual independent audit to be performed.
6. The Form ADV for all affiliates of the applicant that are registered investment advisers.

### *Capital/Source of Capital*

1. A description of the nature and source of capital, including a list of all persons or entities that have contributed or plan to contribute financing to the business, the terms and conditions of such financing arrangements, the risk to net capital presented by proposed business activities, and any arrangement for additional capital should a need arise.
2. A list of all persons or entities, including CRD numbers or tax identification numbers, that have contributed or plan to contribute to the financing of the applicant with their corresponding percentage of ownership interest.
3. A trial balance, balance sheet, income statement, net capital computation and general ledger, with supporting schedule (including documentation to support all allowable assets such as bank statements and related reconciliations and computations of net capital, each of which has been prepared no more than 30 days before the filing of the application).
4. A statement of the applicant's statutory minimum net capital requirement under SEC Rule 15c3-1.<sup>7</sup>
5. A statement providing the paragraph of SEC Rule 15c3-1 under which the applicant computes minimum net capital<sup>8</sup> and the applicable exemption under SEC Rule 15c3-3. A description of how business will be conducted to qualify for such exemption.

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<sup>7</sup> SEC Rule 15c3-1 (the "Net Capital Rule") requires a broker-dealer to have at all times enough liquid assets to promptly satisfy the claims of customers if the broker-dealer goes out of business. Under the Net Capital Rule, different capital requirements apply to a broker-dealer according to the extent of their involvement in customer transactions and whether they carry margin accounts or otherwise hold funds or securities for customers. For example, the Net Capital Rule imposes a minimum net capital requirement of (1) \$250,000 for a broker-dealer that holds customer funds or securities; (2) \$100,000 for a broker-dealer that clears customer transactions on a delivery versus payment basis without holding customer funds or securities beyond the settlement date and does not offer margin accounts; (3) \$50,000 for a broker-dealer that introduces customer transactions and accounts to another registered broker-dealer that carries the accounts on a fully disclosed basis; and (4) \$5,000 for a limited broker-dealer that does not receive or hold funds or securities for customers, and does not carry accounts.

A broker-dealer must also comply with the "basic" or "alternative" maximum debt-to-equity ratio requirements as prescribed by paragraph (a)(1) of the Net Capital Rule. Under the basic method, a broker-dealer must limit its "aggregate indebtedness," as defined by the Rule, to no more than 800 percent of net capital for the first year of operation; and 1,500 percent of net capital thereafter. Under the alternative method, a broker-dealer must maintain net capital of not less than \$250,000 or 2 percent of its customer-related receivables computed according to the "Special Reserve Formula" in Exhibit A to Rule 15c3-3 (the "Customer Protection Rule").

<sup>8</sup> The Customer Protection Rule protects customer funds and securities held by a broker-dealer. Under the rule, a broker-dealer must have possession or control of all fully-paid or excess margin securities held for the account of customers, and determine daily that it is in compliance with this requirement. The broker-dealer must also make periodic computations to determine how much money it is holding that is either customer money or obtained from the use of customer securities. If this amount exceeds the amount that it is owed by customers or by other broker-dealers relating to customer transactions, the broker-dealer must deposit the excess into a special reserve bank account for the exclusive benefit of customers. The Customer Protection Rule thus prevents a broker-dealer from using customer funds to finance its business.

A broker-dealer is exempt from the Customer Protection Rule under paragraph (k)(2)(i) if it carries no margin accounts; promptly transmits (i.e., by noon of the business day following receipt) all customer funds and securities

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6. A detailed monthly projection of income and expenses.

### ***Controls and Compliance***

1. A description of financial controls to be employed by the applicant, including:
  - Identity of person with signatory responsibility for financial accounts.
  - Identity of designated FinOp and their dual registration status (if applicable).
  - Description of how the applicant will handle customer funds or securities.
  - Procedures for reconciliation of bank accounts and clearing statements.
  - Description of system used to prepare monthly financial statement.
  - Description of how the applicant will satisfy the Financial and Operational Combined Uniform (“FOCUS”) filing<sup>9</sup> requirements.
2. A description of the supervisory system and a copy of written supervisory procedures (“WSPs”), internal operating procedures (including operational and internal controls), internal inspections plan, written approval process, and supervisory controls and qualifications investigations.
3. A description of applicant’s proposed recordkeeping system.
4. Sample copies of books and records, including all account documentation.
5. A copy of the applicant’s proposed Anti-Money Laundering Program.
6. A copy of the applicant’s proposed Business Continuity Plan.
7. A completed Continuing Education Plan checklist, and a copy of the applicant’s proposed written training plan to comply with Firm Element continuing education requirements.

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received and does not otherwise hold or owe monies or securities to customers; and effectuates financial transactions with customers through one or more bank accounts designated as a special account for the exclusive benefit of customers. A broker-dealer is exempt from the Customer Protection Rule under paragraph (k)(2)(ii) if it, as an introducing broker-dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker-dealer, and promptly transmits all customer funds and securities to the clearing broker which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of SEC Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker-dealer.

<sup>9</sup> FINRA members are required to compose and submit FOCUS reports to FINRA, as required under SEC Rule 17a-5 (e.g., monthly or quarterly depending on whether the broker-dealer carries customer accounts).

### ***Other Documentation***

The following are not specifically listed as required in FINRA's rules, but are either required as part of FINRA's Form NMA or are often requested.

1. Articles of Incorporation (for the applicant and all control affiliated entities) and resolutions disclosing election/appointment of officers/directors.
2. Evidence of registration in the Lost and Stolen Securities program administered through the Securities Information Center ("SIC") in accordance with SEC Rule 17f-1.
3. Securities Sales Activity Statement which confirms that the applicant has not engaged, and will not engage, in securities sales activities until it has received approval to do so from FINRA.
4. Evidence of blanket fidelity bond coverage for the broker-dealer and its employees.<sup>10</sup>
5. Securities Investor Protection Corporation ("SIPC") membership.<sup>11</sup>
6. To the extent that the broker-dealer enters into clearing arrangements or holds customers funds or securities, there may be additional requirements.
7. Additional product specific information and documentation required by FINRA (e.g., mutual funds, hedge funds, variable annuities).

### ***Membership Application Process***

New applications are assigned to the Centralized NMA Department in FINRA's New York Regional Office ("NMA Department") for processing. All communications regarding the application will be with the NMA Department processing the application. Responsibility for oversight and examination of an approved firm will be with the FINRA District Office in the District (located within the region) where the firm's principal place of business is located.

Within 30 days of receipt of the Form NMA application by the NMA Department, a FINRA examiner assigned to the application will review the application to determine whether FINRA requires more information. Where the application for membership is not substantially complete, the NMA Department processing the application will reject the application and deem it not to have been filed. A written notification of that determination along with the reasons therefore will be served upon the applicant. FINRA will also refund the application fee, less \$350, which shall be retained as a processing fee. An applicant determining to continue to seek membership will be required to submit a new application and fee.

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<sup>10</sup> FINRA requires its members to maintain a blanket fidelity bond, in a form substantially similar to the standard form of Brokers Blanket Bond promulgated by the Surety Association of America, covering officers and employees which provides against loss and has agreements covering at least the following: (1) fidelity; (2) on premises; (3) in transit; (4) misplacement; (5) forgery and alteration (including check forgery); (6) securities loss (including securities forgery); (7) fraudulent trading; and (8) cancellation rider providing that the insurance carrier will use its best efforts to promptly notify FINRA in the event the bond is cancelled, terminated or substantially modified.

<sup>11</sup> Most non-bank broker-dealers registered with the SEC that conduct their principal business within the United States, its territories, or possessions must become members of SIPC.

For substantially complete applications, the NMA Department will advise the applicant in writing if any additional information must be filed. The applicant will have 60 days to respond to the NMA Department staff's initial request letter for information or documentation. Within 30 days of the receipt of additional information or documentation from the applicant, the NMA Department staff will decide on the application or request more information.<sup>12</sup> The amount of time required to process the application may be impacted by such matters as the number of broker-dealer personnel required to pass qualification examinations and the complexity of the proposed business.

Before granting approval to the applicant, FINRA holds a Pre-Membership Interview in order to meet with the applicant's supervisory personnel. Staff from the FINRA District Office in the District in which the applicant's principal place of business will attend and conduct the Membership Interview. At the end of the interview, FINRA provides the applicant with a Pre-Membership Interview Exit Checklist specifying any additional information that FINRA requires, and any deficiencies that need to be rectified, in order for FINRA to permit the applicant to become a member.

The NMA Department will issue a written decision on the membership application within 30 days after the Pre-Membership Interview or after the submission of additional information or documents, whichever is later. After an executed Membership Agreement has been received by the NMA Department, a letter will be sent to the applicant by the NMA Department staff informing the broker-dealer that it may commence business operations and welcoming the applicant as a member of FINRA (the "Welcome Letter"). The FINRA application process could take up to six months measured from the time FINRA receives a substantially complete application.<sup>13</sup>

## **II. State Registration**

In addition to registration with the SEC and membership in FINRA, a broker-dealer and its agents dealing with public customers would be required to register with the states in which it intends to conduct a securities business, unless an appropriate exemption is available. An institutional exemption is available in most states, but not all. In states where the broker-dealer is not registered, it must implement strict procedures to limit its marketing efforts and customers. Due to the difficulty of controlling the location of customers and the potentially onerous consequences of doing business in a state in which it is not registered, it is generally prudent to register in any states in which the broker-dealer thinks it might get business. At a minimum, the broker-dealer will initially need to register in the state(s) in which it maintains an office.

Many states accept the Form BD, Form U4 and certain FINRA documents. However, the forms and procedures involved are determined on a state-by-state basis. In general, state registration filings may be effected by checking off the names of states in which the broker-dealer wishes to register on page 2 of Form BD.

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<sup>12</sup> The time frames specified here are those set out in FINRA Rules and may not reflect actual processing times.

<sup>13</sup> FINRA Rules provide various procedures for FINRA and an applicant to follow in the case of delays beyond the stated time provisions or denial of an application.



### **III. Ongoing Obligations and Compliance Responsibilities**

Once a broker-dealer is appropriately registered, it has to comply with ongoing compliance obligations and responsibilities, certain of which are outlined briefly below.

#### ***Duty of Fair Dealing***

Broker-dealers owe their customers a duty of fair dealing. By engaging in broker-dealer activity, the broker-dealer represents to its customers that it will deal fairly with them, consistent with the standards of the profession. The SEC, through interpretive statements, enforcement actions and court cases has outlined certain duties of fair dealing. These duties include a responsibility to execute orders promptly, disclose certain material information (i.e., information that a customer would consider important as an investor), charge prices reasonably related to the prevailing market, and fully disclose any conflict of interest. In addition, FINRA rules generally require a broker-dealer to observe high standards of commercial honor and just and equitable principles of trade in conducting its business.

#### ***Suitability Requirements***

Broker-dealers generally have an obligation to recommend only those investments or investment strategies that are suitable for their customers. A broker-dealer must have an adequate and reasonable basis for any recommendation that it makes. Therefore, the broker-dealer has an obligation to investigate and obtain adequate information about the security it is recommending. In addition, a broker-dealer has an obligation to determine customer-specific suitability. This means that a broker-dealer must make recommendations based on a customer's specific financial situation, needs, and other security holdings. Supervisors must review recommended transactions and approve for suitability at the time effected, and periodically review customer accounts for suitability.

#### ***Duty of Best Execution***

This requires a broker-dealer to seek to obtain the most favorable terms available under the circumstances for customers' orders. It applies whether the broker-dealer is acting as agent or as principal. FINRA rules require that a broker-dealer use "reasonable diligence" to determine the best market for a security and buy or sell the security in that market, so that the price to the customer is as favorable as possible under prevailing market conditions.

#### ***Statements and Confirmations***

Broker-dealers must send out confirmations in connection with each securities transaction, and send periodic statements to customers quarterly or in some cases monthly. Confirmations and statements generally are processed through the clearing broker.

#### ***Recordkeeping and Reporting Requirements***

Broker-dealers must make and keep current books and records that outline, among other things, their securities transactions, money balances, and securities positions. Broker-dealers are required to keep such books and records for required periods of time in accordance with SEC

Rules 17a-3 and 17a-4 and provide copies of such records to the SEC upon the SEC's request. In addition, broker-dealers must file periodic reports with the SEC, including quarterly and annual financial statements. The annual financial statements generally must be certified by an independent public accountant. Broker-dealers are also required to notify the SEC and (and typically FINRA) regarding net capital, recordkeeping and other operational issues.

### ***Anti-Fraud and Disclosure Obligations; Advertisements; Marketing***

Broker-dealers are subject to a variety of anti-fraud and disclosure obligations under SEC and FINRA rules. They must also provide copies of prospectuses to customers in connection with primary offers and sales of securities that are "in distribution" and generally offer to forward proxy and other materials on securities of publicly-traded companies that are held for customers. Detailed FINRA rules apply to advertising and marketing literature. In some contexts filing with and approval of the FINRA Advertising Department is required. Websites are considered a form of advertising and subject to FINRA requirements. Use of e-mail, texts and social media is subject to recordkeeping, content restrictions and supervision requirements.

### ***Approval of Material Business Changes, Keeping Form BD Current***

Broker-dealers are required to obtain prior FINRA approval for a change-in-control (including a change in direct or indirect ownership), any material change in the business of the broker-dealer, clearing arrangements, or lines of business. "Change in control" generally is triggered by a 25% or more change in direct or indirect ownership, but can be triggered at a lower level. Broker-dealers must promptly update the information contained in Form BD. In addition, certain legal, disciplinary, enforcement and complaint information must be tracked and reported to FINRA and other regulators.

### ***Duties in Respect of Personnel***

Broker-dealers must perform background checks on personnel before hiring them. Most employees and representatives must be registered as associated persons through FINRA on Form U-4, submit fingerprint cards and pass qualification examinations. Different qualification examinations are required for different functions and levels of responsibility. Broker-dealers have a duty to supervise their personnel, monitor their personal trading and investment activity, and provide training under formal training programs. Disciplinary and complaint information on personnel must be reported through the CRD and other electronic systems to FINRA. When an employee leaves the firm, a Form U-5 must be filed with information on certain aspects of the circumstances associated with the departure.

### ***Anti-Money Laundering, Account Opening, Customer Privacy, Telemarketing***

Broker-dealers must have and maintain formal customer identification and anti-money laundering (AML) programs, a process for accepting new accounts and obtaining information from new customers for use in suitability determinations and for AML/know your customer obligations. Suspicious transactions must be reported to FinCen. Broker-dealers are subject to rules governing the protection of confidential customer information from improper use and disclosure to others and must disclose to customers the use made of their information.

### ***Analysts and Research Reports***

Very detailed restrictions and requirements apply under SEC and FINRA Rules to the preparation and use of securities analysts and research reports.

### ***Margin Lending***

Margin lending is subject to detailed restrictions under Federal Reserve, SEC and FINRA rules. Disclosures are required to customers, certain forms are mandated, and limits are placed on the amounts that can be lent and the types of securities that can be accepted, and other aspects of the lending relationship. Margin lending generally is conducted by the clearing broker.

### ***Chaperoning Foreign Broker-Dealer/Rule 15a-6***

Broker-dealers may act as “chaperones” under SEC Rule 15a-6 for contacts by an unregistered securities broker-dealer with U.S. institutional investors and sales to the institutional investor, subject to detailed requirements. The rule does not accommodate contacts with and offers and sales by an unregistered foreign dealer with U.S. high net worth or other non-institutional customers, which must be handled solely by the U.S. registered broker-dealer, its registered personnel and its clearing broker. The U.S. broker-dealer can, however, register and supervise personnel at overseas affiliates to conduct aspects of its relationship and contacts with U.S. customers.

### ***Financial Responsibility and Net Capital***

Broker-dealers are subject to SEC rules on regulatory capital (referred to as “net capital.”) Broker-dealers generally must maintain 120% of the net capital specified in the rule or such higher amounts required by FINRA in the membership application, maintain these capital levels at all times, report (generally quarterly) to the SEC and FINRA on capital levels and financial condition, obtain FINRA approval before withdrawing capital, and notify FINRA and SEC immediately and suspend operations if capital levels are not met. In essence, net capital is GAAP capital minus illiquid and intangible assets, and net of a haircut based on the risk and liquidity of the broker-dealer’s securities and other positions. Most broker-dealers maintain net capital well in excess of regulatory minimums in order to avoid potential problems. Minimum net capital levels are much higher for firms that engage in clearing or hold customer securities or engage in underwriting or market-making activities than they are for introducing brokers.

### ***Business Continuity Plan***

Broker-dealers must create and maintain a business continuity plan for the continued conduct of business and communications in the event of adverse circumstances, natural disasters and the like. Among other things, the plan must take into account key service providers and record and data retention, and involves a back-up office site and back-up storage of records at a location away from the main office of the firm.

### ***Supervision, Internal Controls***

Broker-dealer must create detailed written supervisory programs and internal controls that meet detailed FINRA requirements. The broker must have a chief compliance officer. Every aspect of a broker-dealer's activities, and each of its offices, business lines and personnel, must be formally assigned to a specific, qualified supervisory principal. An annual review and report must be created and a certification on the supervision program and internal control systems sent annually to FINRA by the CEO.

### ***Insider Trading Controls***

Broker-dealers must have programs to prevent and detect trading on material non-public information ("insider trading") by the firm itself, its personnel and customers. Elements generally include written policies and procedures, training and supervision of personnel, review of personal investments and trading, periodic certification of compliance by personnel, information barriers that include physical and electronic restrictions on access to and disclosure of non-public information, in some cases maintenance of a grey list of restricted companies, and review of customer accounts for suspicious activity.