

# Information Notice

## Enhancements to FINRA's Disclosure Review Process Relating to Public Financial Records

### Summary

FINRA is making enhancements to its disclosure review process that will permit firms to rely on FINRA's verification process for purposes of compliance with the requirement to conduct a search of public records relating to bankruptcies, judgments and liens. Specifically, beginning on July 9, 2018, FINRA will conduct a public records search within fifteen calendar days from the date of an applicant's Form U4 (Uniform Application for Securities Industry Registration or Transfer) and provide member firms any information resulting from such a search if such information is different from what was reported in the applicant's Form U4. These enhancements are likely to: (1) reduce the costs to firms associated with conducting these public records checks, which often involve finding and hiring a vendor; (2) result in more timely reporting of disclosure information to the benefit of regulators, investors and firms; and (3) result in a significant reduction of late disclosure fees related to judgments and liens.<sup>1</sup>

Questions regarding FINRA's enhanced disclosure review process should be directed to:

- ▶ Mario DiTrapani, Vice President, CRD/Public Disclosure, at (240) 386-4796 or [mario.ditrapani@finra.org](mailto:mario.ditrapani@finra.org); or
- ▶ Ronald Petersen, Senior Director, CRD/Public Disclosure, at (240) 386-4767 or [ronald.petersen@finra.org](mailto:ronald.petersen@finra.org).

### Background and Discussion

#### FINRA's Verification Process

Currently, FINRA conducts a search of public financial records for all registered persons on an annual basis to verify the accuracy and completeness of information relating to bankruptcies, judgments and liens reported to the Central Registration Depository (CRD<sup>®</sup>) system via the Form U4.

May 18, 2018

#### Suggested Routing

- ▶ Compliance
- ▶ Human Resources
- ▶ Legal
- ▶ Operations
- ▶ Registration
- ▶ Risk
- ▶ Senior Management
- ▶ Training

#### Key Topics

- ▶ Bankruptcies
- ▶ Credit Reports
- ▶ Form U4
- ▶ Judgments
- ▶ Liens
- ▶ Public Records

#### Referenced Rules & Notices

- ▶ Exchange Act Rule 17f-2
- ▶ FINRA Rule 3110(e)
- ▶ Information Notice 8/17/12
- ▶ Regulatory Notice 15-05

Beginning on July 9, 2018, FINRA is enhancing its disclosure review process to enable it to also conduct a public records search of information relating to bankruptcies, judgments and liens within fifteen calendar days from the date of an applicant's initial or transfer Form U4.<sup>2</sup>

If FINRA's search reveals information different from what was reported in an applicant's initial or transfer Form U4, FINRA will notify the member firm with which the applicant is associated within fifteen calendar days from the date the Form U4 is filed.<sup>3</sup> If the firm files an amended Form U4 with updated disclosure, FINRA will not assess a late disclosure fee, provided that the amended Form U4 is filed no later than 30 calendar days after the applicant first learns of the event.<sup>4</sup>

Moreover, member firms may rely on FINRA's verification process for purposes of compliance with the requirement under FINRA Rule 3110(e) (Responsibility of Member to Investigate Applicants for Registration) to conduct a search of public records relating to bankruptcies, judgments and liens. Therefore, if a member firm does not receive notice from FINRA regarding the results of its public records search within fifteen calendar days after the filing of an applicant's Form U4, the firm is deemed to have satisfied its obligation to conduct a public records search of information relating to bankruptcies, judgments and liens for that applicant.<sup>5</sup>

The enhancements to the disclosure review process will enable FINRA to verify the accuracy and completeness of information relating to bankruptcies, judgments and liens in a more timely manner while reducing the cost and regulatory burden for member firms that choose to rely on FINRA's verification process.

## Credit Reports

As stated in [Regulatory Notice 15-05](#), member firms could comply with the requirement to conduct a search of public records relating to bankruptcies, judgments and liens by other means, including by reviewing a credit report from a major national credit reporting agency that contains public financial record information. The major national credit reporting agencies recently instituted changes that resulted in the exclusion of certain judgments and liens in credit reports. Firms have asked whether these recent changes impact their ability to rely on credit reports. FINRA notes that the ability of member firms to rely on credit reports from major national credit reporting agencies for purposes of compliance with FINRA Rule 3110(e) is not affected by these changes.

## Endnotes

1. Firms and registered persons are required to report unsatisfied liens and judgments within 30 calendar days of learning of the event. FINRA determines whether a filing is late based on the date the registered person learned of the judgment or lien and, if it is late, will assess the late disclosure fee based on that date. See [Information Notice 8/17/12](#) (Late Disclosure Fee Related to Reporting of Judgment/Lien Events). Occasionally, an individual is unaware of the existence of a judgment or lien. The public records search facilitates the identification and timely reporting of these events.
2. This verification process will be in addition to FINRA's monitoring of public financial records for all registered persons.
3. FINRA, however, is considering future enhancements to its disclosure review process that would enable FINRA to also provide firms a report indicating that it did not identify any information relating to public financial records that was not otherwise disclosed in an applicant's initial or transfer Form U4.
4. See *supra* note 1. For frequently asked questions regarding late disclosure fees, see <http://www.finra.org/industry/faq-late-disclosure-fee-frequently-asked-questions>.
5. FINRA notes, however, that under FINRA Rule 3110(e), firms also must conduct a search of reasonably available public records to identify criminal matters required to be reported on Form U4. Firms may satisfy this obligation by reviewing an applicant's fingerprint results obtained through FINRA's CRD system pursuant to Rule 17f-2 under the Securities Exchange Act of 1934 or by reviewing a report from a third-party provider that includes public records relating to criminal matters.