

# **Rules for Limited Corporate Financing Brokers**

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- 010. GENERAL STANDARDS**
  - 014. Application of the By-Laws and the Limited Corporate Financing Broker Rules**

All limited corporate financing brokers and persons associated with limited corporate financing brokers shall be subject to the FINRA By-Laws (including the schedules thereto), unless the context requires otherwise, and the Limited Corporate Financing Broker Rules. Persons associated with a limited corporate financing broker

shall have the same duties and obligations as a limited corporate financing broker under the Limited Corporate Financing Broker Rules.

The terms used in the Limited Corporate Financing Broker Rules, if defined in the FINRA By-Laws, shall have the meaning as defined in the FINRA By-Laws, unless a term is defined differently in a Limited Corporate Financing Broker Rule, or unless the context of the term within a Limited Corporate Financing Broker Rule requires a different meaning.

#### **015. Application of Rules to Municipal Securities**

The Limited Corporate Financing Broker Rules do not apply to transactions in, and business activities relating to, municipal securities as defined in Section 3(a)(29) of the Exchange Act.

#### **016. Definitions**

When used in the Limited Corporate Financing Broker Rules, unless the context otherwise requires:

**(a) “Associated person of a limited corporate financing broker” or “person associated with a limited corporate financing broker”**

The term “associated person of a limited corporate financing broker” or “person associated with a limited corporate financing broker” means: (A) a natural person who is registered or has applied for registration under the FINRA Rules; (B) a sole proprietor, partner, officer, director or branch manager of a limited corporate financing broker, or other natural person occupying a similar status or performing similar functions, or a natural person engaged in the investment banking or securities business who is directly or indirectly controlling or controlled by a limited corporate financing broker, whether or

not any such person is registered or exempt from registration with FINRA under the FINRA By-Laws or the FINRA Rules; and (C) for purposes of FINRA Rule 8210, any other person listed in Schedule A of Form BD of a limited corporate financing broker.

**(b) “By-Laws”**

The term “By-Laws” means the By-Laws of the Corporation or the FINRA By-Laws.

**(c) “Commission”**

The term “Commission” means the Securities and Exchange Commission.

**(d) “Customer”**

The term “customer” means any natural person and any entity receiving corporate financing services from a limited corporate financing broker. The term “customer” shall not include a broker or dealer.

**(e) “Exchange Act” or “SEA”**

The term “Exchange Act” or “SEA” means the Securities Exchange Act of 1934, as amended.

**(f) “FINRA”**

The term “FINRA” means, collectively, FINRA, Inc., FINRA Regulation, Inc. and FINRA Dispute Resolution, Inc.

**(g) “Institutional Investor”**

The term “institutional investor” means any:

- (1) bank, savings and loan association, insurance company or registered investment company;
- (2) governmental entity or subdivision thereof;

(3) employee benefit plan, or multiple employee benefit plans offered to employees of the same employer, that meet the requirements of Section 403(b) or Section 457 of the Internal Revenue Code and in the aggregate have at least 100 participants, but does not include any participant of such plans;

(4) qualified plan, as defined in Section 3(a)(12)(C) of the Exchange Act, or multiple qualified plans offered to employees of the same employer, that in the aggregate have at least 100 participants, but does not include any participant of such plans;

(5) other person (whether a natural person, corporation, partnership, trust, family office or otherwise) with total assets of at least \$50 million; and

(6) any person acting solely on behalf of any such institutional investor.

**(h) “Limited Corporate Financing Broker”**

(1) A “limited corporate financing broker” is any broker that solely engages in any one or more of the following activities:

(A) advising an issuer, including a private fund, concerning its securities offerings or other capital raising activities;

(B) advising a company regarding its purchase or sale of a business or assets or regarding its corporate restructuring, including a going-private transaction, divestiture or merger;

(C) advising a company regarding its selection of an investment banker;

(D) assisting in the preparation of offering materials on behalf of an issuer;

(E) providing fairness opinions; and

(F) qualifying, identifying, or soliciting potential institutional investors.

(2) “Limited corporate financing broker” does not include any broker or dealer that carries or maintains customer accounts, holds or handles customers’ funds or securities, accepts orders from customers to purchase or sell securities either as principal or as agent for the customer, possesses investment discretion on behalf of any customer, or engages in proprietary trading of securities or market-making activities.

**(i) “Limited Corporate Financing Broker Rules”**

The term “Limited Corporate Financing Broker Rules” means Limited Corporate Financing Broker Rules 010 through 1000.

**(j) “Member”**

The term “Member” means any individual, partnership, corporation or other legal entity admitted to membership in FINRA under the provisions of Articles III and IV of the FINRA By-Laws.

**(k) “Person”**

The term “person” includes any natural person, partnership, corporation, association, or other legal entity.

**(l) “Securities Act”**

The term “Securities Act” means the Securities Act of 1933, as amended.

**100. MEMBER APPLICATION AND ASSOCIATED PERSON REGISTRATION**

**101. Electronic Filing Requirements for Uniform Forms**

All limited corporate financing brokers are subject to FINRA Rule 1010.

**102. Filing of Misleading Information as to Membership or Registration**

All limited corporate financing brokers are subject to FINRA Rule 1122.

**111. Membership Proceedings**

**(a) Definitions**

All limited corporate financing brokers are subject to NASD Rule 1011.

**(b) Safe Harbor for Business Expansions**

All limited corporate financing brokers are subject to NASD IM-1011-1.

**(c) General Provisions**

All limited corporate financing brokers are subject to NASD Rule 1012.

**112. New Member Application and Interview**

(a) All limited corporate financing brokers are subject to NASD Rule 1013.

(b) An applicant for membership that seeks to qualify as a limited corporate financing broker must state in its application that it intends to operate as a limited corporate financing broker.

**113. Department Decision**

(a) All limited corporate financing brokers are subject to NASD Rule 1014.

(b) In reviewing an application for membership as a limited corporate financing broker, the Department shall consider, in addition to the standards for admission set forth in NASD Rule 1014, whether the applicant's proposed activities are consistent with the limitations imposed on limited corporate financing brokers under Limited Corporate Financing Broker Rule 016(h).

**114. Review by National Adjudicatory Council**



All limited corporate financing brokers are subject to NASD Rule 1015.

**115. Discretionary Review by FINRA Board**

All limited corporate financing brokers are subject to NASD Rule 1016.

**116. Application for Approval of Change in Ownership, Control, or Business Operations**

(a) All limited corporate financing brokers are subject to NASD Rule 1017.

(b) An existing FINRA member firm that seeks to change its status to a limited corporate financing broker and is already approved to engage in the activities of a limited corporate financing broker, but which does not intend to change its existing ownership, control or business operations, must file a request to amend its membership agreement or obtain a membership agreement to provide that: (i) the member firm's activities will be limited to those permitted for limited corporate financing brokers under Limited Corporate Financing Broker Rule 016(h); and (ii) the member firm agrees to comply with the Limited Corporate Financing Broker Rules.

(c) A limited corporate financing broker that seeks to terminate its status as such and continue as a FINRA member must file an application for approval of a material change in business operations pursuant to NASD Rule 1017, and must amend its membership agreement to provide that the member firm agrees to comply with all FINRA Rules.

**118. Application to Commission for Review**

All limited corporate financing brokers are subject to NASD Rule 1019.

**119. Foreign Members and Associates**

(a) **Foreign Members**

All limited corporate financing brokers are subject to NASD Rule 1090.

**(b) Foreign Associates**

All limited corporate financing brokers are subject to NASD Rule 1100.

**121. Registration Requirements**

**(a) Status of Persons Serving in the Armed Forces of the United States**

All limited corporate financing brokers are subject to NASD IM-1000-2.

**(b) Failure to Register Personnel**

All limited corporate financing broker-dealers are subject to NASD IM-1000-3.

**(c) Registration Requirements – Principals**

All limited corporate financing brokers are subject to NASD Rule 1021.

**(d) Registration Requirements – Representatives**

All limited corporate financing brokers are subject to NASD Rule 1031.

**122. Qualification Examinations**

**(a) Qualification Examinations and Waiver of Requirements**

All limited corporate financing brokers are subject to NASD Rule 1070.

**(b) Confidentiality of Examinations**

All limited corporate financing brokers are subject to NASD Rule 1080.

**123. Categories of Registration**

**(a) Categories of Principal Registration**

All limited corporate financing brokers are subject to paragraphs (a), (b), (c) and (g) of NASD Rule 1022.

**(b) Categories of Representative Registration**

All limited corporate financing brokers are subject to paragraphs (a), (e), (h) and (i) of NASD Rule 1032.

**(c) Operations Professional**

All limited corporate financing brokers are subject to paragraph (b)(6) of FINRA Rule 1230.

**124. Persons Exempt from Registration**

All limited corporate financing brokers are subject to NASD Rule 1060.

**125. Continuing Education Requirements**

**(a) Persons Subject to the Firm Element**

The requirements of this Rule shall apply to any person registered with a limited corporate financing broker who has direct contact with customers in the conduct of the broker's corporate financing activities, and to the immediate supervisors of such persons (collectively, "covered registered persons").

**(b) Standards for the Firm Element**

(1) Each limited corporate financing broker must maintain a continuing and current education program for its covered registered persons to enhance their securities knowledge, skill, and professionalism. If such a broker's analysis establishes the need for supervisory training for persons with supervisory responsibilities, such training must be included in the broker's program.

(2) Minimum Standards for Training Programs — Programs used to implement a limited corporate financing broker's training plan must be appropriate for the business of the broker.

(3) Administration of Continuing Education Program — A limited corporate financing broker must administer its continuing education programs in accordance with its annual evaluation and written plan and must maintain records documenting the content of the programs and completion of the programs by covered registered persons.

**(c) Participation in the Firm Element**

Covered registered persons included in a limited corporate financing broker's plan must take all appropriate and reasonable steps to participate in continuing education programs as required by the broker.

**(d) Specific Training Requirements**

FINRA may require a limited corporate financing broker, individually or as part of a larger group, to provide specific training to its covered registered persons in such areas as FINRA deems appropriate. Such a requirement may stipulate the class of covered registered persons for which it is applicable, the time period in which the requirement must be satisfied and, where appropriate, the actual training content.

**200. DUTIES AND CONFLICTS**

**201. Standards of Commercial Honor and Principles of Trade**

All limited corporate financing brokers are subject to FINRA Rule 2010.

**202. Use of Manipulative, Deceptive or Other Fraudulent Devices**

All limited corporate financing brokers are subject to FINRA Rule 2020.

**204. Dealing with Non-Members**

(a) All limited corporate financing brokers are subject to NASD Rule 2420.

(b) All limited corporate financing brokers are subject to paragraph (a) of NASD IM-2420-1.

**207. Transactions Involving FINRA Employees**

All limited corporate financing brokers are subject to FINRA Rule 2070.

**208. Obtaining an Order of Expungement of Customer Dispute Information from the Central Registration Depository (CRD) System**

All limited corporate financing brokers are subject to FINRA Rule 2080.

**209. Know Your Customer**

Every limited corporate financing broker shall use reasonable diligence to know (and retain) the essential facts concerning every customer and concerning the authority of each person acting on behalf of such customer. For purposes of this Rule, facts “essential” to “knowing the customer” are those required to (a) effectively service the customer, (b) understand the authority of each person acting on behalf of the customer, and (c) comply with applicable laws, regulations and rules.

**211. Suitability**

(a) A limited corporate financing broker or an associated person of a limited corporate financing broker must have a reasonable basis to believe that a recommended transaction or investment strategy (as defined in FINRA Rule 2111) involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the broker or associated person to ascertain the customer’s investment profile. A customer’s investment profile includes, but is not limited to, the customer’s age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk

tolerance, and any other information the customer may disclose to the limited corporate financing broker or associated person of a limited corporate financing broker in connection with a recommendation. The limited corporate financing broker or associated person may not disclaim any responsibilities under this Rule.

(b) The limited corporate financing broker or associated person fulfills the customer-specific suitability obligation for an institutional account, as defined in FINRA Rule 4512(c), if (1) the broker or associated person has a reasonable basis to believe that the institutional customer is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies involving a security or securities and (2) the institutional customer affirmatively indicates that it is exercising independent judgment in evaluating the broker's or associated person's recommendations. Where an institutional customer has delegated decision-making authority to an agent, such as an investment adviser or a bank trust department, these factors will be applied to the agent.

## **221. Communications with the Public**

(a) No communication with the public by a limited corporate financing broker may:

(1) include any false, exaggerated, unwarranted, promissory or misleading statement or claim;

(2) omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communication to be misleading;

(3) state or imply that FINRA, or any other corporate name or facility owned by FINRA, or any other regulatory organization endorses, indemnifies, or guarantees the limited corporate financing broker-dealer's business practices; or

(4) predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast. A hypothetical illustration of mathematical principles is permitted, provided that it does not predict or project the performance of an investment or investment strategy.

(b) All communications by a limited corporate financing broker must be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service.

## **226. Arbitration Requirements**

### **(a) Arbitration Disclosure to Associated Persons Signing or Acknowledging Form U4**

All limited corporate financing brokers are subject to FINRA Rule 2263.

### **(b) Requirements When Using Predispute Arbitration Agreements for Customer Accounts**

All limited corporate financing brokers are subject to FINRA Rule 2268.

## **240. Engaging in Impermissible Activities**

Upon a finding that a limited corporate financing broker or associated person of a limited corporate financing broker has engaged in activities that require the firm to register as a broker or dealer under the Exchange Act, and that are inconsistent with the

limitations imposed on limited corporate financing brokers under Limited Corporate Financing Rule 016(h), FINRA may examine for and enforce all FINRA rules against such a broker or associated person, including any rule that applies to a FINRA member broker-dealer that is not a limited corporate financing broker or to an associated person who is not a person associated with a limited corporate financing broker.

### **300. SUPERVISION AND RESPONSIBILITIES RELATING TO ASSOCIATED PERSONS**

#### **311. Limited Corporate Financing Broker Compliance and Supervision**

(a) All limited corporate financing brokers are subject to paragraphs (a)(1) through (a)(6), (b)(1), (b)(4), (b)(5), (b)(7) and (e) of FINRA Rule 3110, and Supplementary Materials .01 through .03, .06 through .09, and .11 following FINRA Rule 3110.

(b) A limited corporate financing broker must permit the examination and inspection of its premises, systems, platforms, and records by representatives of FINRA and the Commission, and must cooperate with the examination, inspection, or investigation of any persons directly or indirectly using its platform.

#### **313. Designation of Chief Compliance Officer**

Each limited corporate financing broker must designate and specifically identify to FINRA on Schedule A of Form BD one or more principals to serve as a chief compliance officer.

#### **322. Influencing or Rewarding Employees of Others**

All limited corporate financing brokers are subject to FINRA Rule 3220.

#### **324. Borrowing From or Lending to Customers**



All limited corporate financing brokers are subject to FINRA Rule 3240.

**327. Outside Business Activities of Registered Persons**

All limited corporate financing brokers are subject to FINRA Rule 3270.

**331. Anti-Money Laundering Compliance Program**

(a) Each limited corporate financing broker must develop and implement a written anti-money laundering program reasonably designed to achieve and monitor its compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, *et seq.*), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each anti-money laundering program must be approved, in writing, by a member of senior management. The anti-money laundering programs required by this Rule must, at a minimum,

(1) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(2) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;

(3) Provide for independent testing no less frequently than every two years, for compliance to be conducted by member personnel or by a qualified outside party with a working knowledge of applicable requirements under the Bank Secrecy Act and its implementing regulations, who is not (and does not report to) the person who performs the tested functions or the designated anti-money laundering compliance person;

(4) Designate and identify to FINRA (by name, title, mailing address, e-mail address, telephone number, and facsimile number) an associated person responsible for implementing and monitoring the day-to-day operations and internal controls of the program and promptly notify FINRA about any change in the designation; and

(5) Provide ongoing training for appropriate personnel.

(b) Each limited corporate financing broker must identify, review, and, if necessary, update the information regarding its anti-money laundering compliance person designated pursuant to Rule 331(a)(4) in the manner prescribed by NASD Rule 1160.

#### **400. FINANCIAL AND OPERATIONAL RULES**

##### **411. Capital Compliance**

(a) (1) Unless otherwise permitted by FINRA, a limited corporate financing broker must suspend all business operations during any period in which it is not in compliance with applicable net capital requirements set forth in SEA Rule 15c3-1.

(2) FINRA may issue a notice pursuant to Rule 9557 directing a limited corporate financing broker that is not in compliance with applicable net capital requirements set forth in SEA Rule 15c3-1 to suspend all or a portion of its business.

(b) No equity capital of a limited corporate financing broker may be withdrawn for a period of one year from the date such equity capital is contributed, unless otherwise permitted by FINRA in writing. This paragraph does not preclude a limited corporate financing broker from withdrawing profits earned.

**(c) Subordinated Loans, Notes Collateralized by Securities and Capital**

**Borrowings**

(1) All subordinated loans or notes collateralized by securities must meet such standards as FINRA may require to ensure the continued financial stability and operational capability of limited corporate financing broker, in addition to those specified in Appendix D of SEA Rule 15c3-1.

(2) Unless otherwise permitted by FINRA, each limited corporate financing broker that is a partnership and whose general partner enters into any secured or unsecured borrowing, the proceeds of which will be contributed to the capital of the broker, must submit to FINRA such information as needed by FINRA to determine whether such proceeds qualify as capital acceptable for inclusion in the computation of the net capital of the broker.

**414. Audit**

All limited corporate financing brokers are subject to FINRA Rule 4140.

**415. Guarantees by, or Flow Through Benefits for, Members**

All limited corporate financing brokers are subject to FINRA Rule 4150.

**416. Verification of Assets**

All limited corporate financing brokers are subject to FINRA Rule 4160.

**436. Fidelity Bonds**

All limited corporate financing brokers are subject to FINRA Rule 4360.

**451. Books and Records**

**(a) General Requirements**

All limited corporate financing brokers are subject to FINRA Rule 4511.

**(b) Customer Information**

Each limited corporate financing broker must maintain each customer's name and residence, whether the customer is of legal age (if applicable), and the names of any persons authorized to transact business on behalf of the customer.

**(c) Records of Written Customer Complaints**

All limited corporate financing brokers are subject to FINRA Rule 4513.

**452. Assignment of Responsibility for General Ledger Accounts**

Each limited corporate financing broker must designate an associated person who is responsible for each general ledger bookkeeping account and account of like function used by the broker and such associated person must control and oversee entries into each such account and must determine that the account is current and accurate as necessary to comply with all applicable FINRA rules and federal securities laws governing books and records and financial responsibility requirements. A supervisor must, as frequently as is necessary considering the function of the account but, in any event, at least monthly, review each account to determine that it is current and accurate and that any items that become aged or uncertain as to resolution are promptly identified and appropriate action is taken.

**453. Reporting Requirements**

All limited corporate financing brokers are subject to FINRA Rule 4530.

**454. Executive Representatives, Contact Information and Electronic Filing Requirements**

**(a) Executive Representative**

All limited corporate financing brokers are subject to NASD Rule 1150.

**(b) Contact Information Requirements**

All limited corporate financing brokers are subject to NASD Rule 1160.

**(c) Mandatory Electronic Filing Requirements**

All limited corporate financing brokers are subject to NASD Rule 3170.

**457. Custodian of Books and Records**

All limited corporate financing brokers are subject to FINRA Rule 4570.

**500. SECURITIES OFFERINGS**

**512. Private Placements of Securities Issued by Members**

All limited corporate financing brokers are subject to FINRA Rule 5122.

**800. Investigations and Sanctions**

Except for FINRA Rules 8110, 8211, and 8213, all limited corporate financing broker members shall be subject to the FINRA Rule 8000 Series, unless the context requires otherwise, provided, however, that:

(a) the term “associated person” as used in the FINRA Rule 8000 Series shall mean “associated person of a limited corporate financing broker” or “person associated with a limited corporate financing broker” as defined pursuant to Limited Corporate Financing Broker Rule 016(a); and

(b) the terms “rules” and “FINRA rules” as used in the FINRA Rule 8000 Series shall include the Limited Corporate Financing Broker Rules.

**900. Code of Procedure**

Except for the FINRA Rule 9700 Series, all limited corporate financing broker members shall be subject to the FINRA Rule 9000 Series, unless the context requires otherwise, provided, however, that:

(a) the term “associated person” as used in the FINRA Rule 9000 Series shall mean “associated person of a limited corporate financing broker” or “person associated with a limited corporate financing broker” as defined pursuant to Limited Corporate Financing Broker Rule 016(a);

(b) the terms “rules” and “FINRA rules” as used in the FINRA Rule 9000 Series shall include the Limited Corporate Financing Broker Rules;

(c) any limited corporate financing broker (and its associated persons) may be subject to a fine under FINRA Rule 9216(b) with respect to any rule or By-Laws listed in this Rule.

- Article IV of the FINRA By-Laws -- failure to timely submit amendments to Form BD.
- Article V of the FINRA By-Laws -- failure to timely submit amendments to Form U4.
- Article V of the FINRA By-Laws -- failure to timely submit amendments to Form U5.
- Limited Corporate Financing Broker Rule 125 – failure to comply with the continuing education requirements.
- Limited Corporate Financing Broker Rule 221 – communications with the public.
- Limited Corporate Financing Broker Rule 311 – failure to maintain adequate written supervisory procedures where the underlying conduct is subject to Limited Corporate Financing Broker Rule 900(c).

- Limited Corporate Financing Broker Rule 436 – failure to maintain adequate fidelity bond coverage.
- Limited Corporate Financing Broker Rule 451 – failure to keep and preserve books, accounts, records, memoranda, and correspondence in conformance with all applicable laws, rules, regulations and statements of policy promulgated thereunder, and with FINRA rules.
- Limited Corporate Financing Broker Rule 452 – failure to comply with the requirements for general ledger accounts.
- Limited Corporate Financing Broker Rule 453 – failure to timely file reports.
- Limited Corporate Financing Broker Rule 454 – failure to review and update executive representative designation and contact information, and failure to report or update contact information.
- Limited Corporate Financing Broker Rule 512 – failure to timely file private placement documents.
- SEA Rules 17a-3(a) and 17a-4 – Record retention rule violations.
- SEA Rule 17a-5 – Failure to timely file FOCUS reports and annual audit reports.
- SEA Rule 17a-10 – Failure to timely file Schedule I.

(d) for purposes of FINRA Rule 9551(a), FINRA staff may issue a written notice requiring a limited corporate financing broker to file communications with the FINRA Advertising Regulation Department at least ten days prior to use if FINRA staff

determines that the member has departed from the standards of Limited Corporate Financing Broker Rule 221; and

(e) for purposes of FINRA Rule 9551(d), the pre-use filing requirement referenced in a notice issued and served under FINRA Rule 9551 shall become effective 21 days after service of the notice, unless stayed by a request for a hearing pursuant to FINRA Rule 9559.

### **1000. Arbitration and Mediation**

All limited corporate financing broker members shall be subject to the FINRA Rule 10000 Series, the FINRA Rule 12000 Series, FINRA Rule 13000 Series and FINRA Rule 14000 Series, unless the context requires otherwise, provided, however, that:

(a) the term “associated person” as used in the FINRA Rule 10000 Series, the FINRA Rule 12000 Series, FINRA Rule 13000 Series and FINRA Rule 14000 Series shall mean “associated person of a limited corporate financing broker” or “person associated with a limited corporate financing broker” as defined pursuant to Limited Corporate Financing Broker Rule 016(a);

(b) the terms “rules” and “FINRA rules” as used in the FINRA Rule 10000 Series, the FINRA Rule 12000, FINRA Rule 13000 Series and FINRA Rule 14000 Series shall include the Limited Corporate Financing Broker Rules; and

(c) the term “customer” as used in the FINRA Rule 10000 Series, the FINRA Rule 12000, FINRA Rule 13000 Series and FINRA Rule 14000 Series shall include customers of limited corporate financing brokers.