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# Sanction Guidelines

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## Overview

The regulatory mission of FINRA is to protect investors and strengthen market integrity through vigorous, even-handed, and cost-effective self-regulation. FINRA embraces self-regulation as the most effective means of infusing a balance of industry and non-industry expertise into the regulatory process. FINRA believes that an important facet of its regulatory function is the building of public confidence in the financial markets. As part of FINRA's regulatory mission, it must stand ready to discipline member firms and their associated persons by imposing sanctions when necessary and appropriate to protect investors, other member firms, and associated persons, and to promote the public interest.

The National Adjudicatory Council (NAC) has developed the FINRA Sanction Guidelines for use by the various bodies adjudicating disciplinary decisions, including Hearing Panels and the NAC itself (collectively, Adjudicators), in determining appropriate remedial sanctions. FINRA has published the FINRA Sanction Guidelines so that member firms, associated persons, and their counsel may become more familiar with the types of disciplinary sanctions that may be applicable to various violations. FINRA staff and respondents also may use these guidelines in crafting settlements.

These guidelines do not prescribe fixed sanctions for particular violations. Rather, they provide direction for Adjudicators in imposing sanctions consistently and fairly. The guidelines recommend ranges for sanctions and suggest factors that Adjudicators may consider in determining, for each case, where within the range the sanctions should fall or whether sanctions should be above or below the recommended range. These guidelines are not intended to be absolute. Based on the facts and circumstances presented in each case, Adjudicators may impose sanctions that fall outside the ranges recommended and may consider aggravating and mitigating factors in addition to those listed in these guidelines.

These guidelines address some typical securities-industry violations. For violations that are not addressed specifically, Adjudicators are encouraged to look to the guidelines for analogous violations.

In order to promote consistency and uniformity in the application of these guidelines, the NAC has outlined certain **General Principles Applicable to All Sanction Determinations** that should be considered in connection with the imposition of sanctions in all cases. Also included is a list of **Principal Considerations in Determining Sanctions**, which enumerates generic factors for consideration in all cases. Also, a number of guidelines identify potential principal considerations that are specific to the described violation.

## General Principles Applicable to All Sanction Determinations

1. **Disciplinary sanctions should be designed to protect the investing public by deterring misconduct and upholding high standards of business conduct.** The purpose of FINRA's disciplinary process is to protect the investing public, support and improve the overall business standards in the securities industry, and decrease the likelihood of recurrence of misconduct by the disciplined respondent. Toward this end, Adjudicators should design sanctions that are meaningful and significant enough to prevent and discourage future misconduct by a respondent and deter others from engaging in similar misconduct.

Sanctions should be more than a cost of doing business. Sanctions should be a meaningful deterrent and reflect the seriousness of the misconduct at issue. To meet this standard, certain cases may necessitate the imposition of sanctions in excess of the upper sanction guideline. For example, when the violations at issue in a particular case have widespread impact, result in significant ill-gotten gains, cause significant harm to customers, or result from reckless or intentional actions, Adjudicators should assess sanctions that exceed the recommended range of the guidelines.<sup>1</sup>

2. **Disciplinary sanctions should be more severe for recidivists.** An important objective of the disciplinary process is to deter and prevent future misconduct by imposing progressively escalating sanctions on recidivists beyond those outlined in these guidelines, up to and including barring associated persons and expelling member firms. Sanctions imposed on recidivists should be more severe because a recidivist, by definition, already has demonstrated a failure to comply with FINRA's rules or the securities laws. The imposition of more severe sanctions emphasizes the need for corrective action after a violation has occurred, discourages future misconduct by

the same respondent, and deters others from engaging in similar misconduct.

Adjudicators should always consider a respondent's disciplinary history in determining sanctions and should ordinarily impose progressively escalating sanctions on recidivists. A respondent's disciplinary history is relevant to sanctions and Adjudicators should consider imposing more severe sanctions when a respondent's disciplinary history:

- (a) includes significant past misconduct that is similar to the misconduct at issue; or
- (b) shows a pattern of causing investor harm, damaging market integrity, or disregarding regulatory requirements.

Relevant disciplinary history can include any final formal disciplinary action by FINRA or other regulator.

### ***Additional Consideration of an Individual's Arbitration History***

With respect to individual respondents, adjudicators also should consider, in addition to disciplinary history, an individual's arbitration history when assessing sanctions.

In this context, "arbitration history" is defined as arbitration awards and arbitration settlements resulting from disputes between a customer and the individual, including those when the individual is the subject of an arbitration claim that only names a FINRA member firm. Pending arbitrations are not arbitration history.

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1. See, e.g., *Dep't of Enforcement v. Spencer Edwards*, Complaint No. 2013035865303, 2019 FINRA Discip. LEXIS 56, at \*69 (FINRA NAC Dec. 10, 2019) (finding that respondent's misconduct in connection with sales of unregistered securities supported fine above the range recommended by the Sanction Guidelines).

## Pattern

Adjudicators should draw on their experience and judgment when evaluating if a respondent firm's disciplinary history or an individual's disciplinary and arbitration history establishes a pattern. In addressing whether disciplinary history (plus arbitration history for individuals) establishes a pattern, the Adjudicator may focus on the nature, severity, and frequency of the disciplinary and, if applicable, arbitration matters. Factors that weigh against finding a pattern are the time passed since the events, length of time between events, the isolated nature of an event, or other extenuating circumstances.<sup>2</sup>

When Adjudicators consider an arbitration award or arbitration settlement, they must rely on the CRD description of the award or settlement. Arbitration awards and the CRD descriptions of arbitration awards and settlements may not be challenged in disciplinary actions.

3. **Adjudicators should tailor sanctions to respond to the misconduct at issue.** Sanctions in disciplinary proceedings are intended to be remedial and to prevent the recurrence of misconduct. The guidelines are organized into separate sections applicable to firms and individuals with corresponding principal considerations and fine ranges. For firms, the guidelines establish separate fine ranges for small firms and mid- and large-size firms. These guidelines adopt the definition of firm size from FINRA's By-Laws. See FINRA By-Laws of the Corporation, Article I(y), (cc), (ww). The purpose of establishing separate sanctions ranges for small and mid- and large-size firms is to give Adjudicators sanctions guidance that is tailored by firm size. As Adjudicators tailor sanctions, Adjudicators should impose sanctions that are remedial and designed to deter future misconduct, both by the respondent and others, regardless of firm size.<sup>3</sup>

Adjudicators should impose sanctions tailored to address the misconduct involved in each particular case. Section 15A of the Securities Exchange Act of 1934 and FINRA Rule 8310 provide that FINRA may enforce compliance with its rules by, among other actions, imposing fines, suspensions, bars, expulsions, and other fitting sanctions.

When evaluating possible sanctions, Adjudicators should consider both monetary and non-monetary sanctions. Adjudicators may design sanctions other than those specified in these guidelines. For example, to achieve deterrence and remediate misconduct, Adjudicators may impose sanctions that:

- (a) require a respondent firm to retain a qualified independent consultant (e.g., to design procedures for improved future compliance with regulatory requirements, to implement procedures for improved future compliance with regulatory requirements, or both);
- (b) suspend or bar a respondent firm from engaging in a particular line of business or activity, such as suspending a firm's ability to engage in member firm private offerings or requiring a firm to prohibit some or all private securities transactions;
- (c) limit a respondent firm's business lines or products offered;
- (d) require a respondent firm to implement heightened supervision of certain individuals or departments in the firm including, in addition to the components of a heightened supervision plan described in *Regulatory Notice 18-15*, other specific requirements tailored to risk posed by the individual or department subject to the plan such as, among other things, requiring pre-approval of certain types of transactions;

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2. Separately, if an individual respondent has petitioned a court of competent jurisdiction to confirm an arbitration award containing expungement relief pursuant to FINRA Rule 2080 and the court has not yet issued an order confirming the arbitration award, adjudicators may consider these additional facts in evaluating if a pattern exists.

3. Adjudicators should presumptively apply the guideline range specified for the firm's size but should also consider whether the other range would be more appropriate with a view toward ensuring that

the sanctions imposed are remedial and designed to deter future misconduct. Factors to consider in determining whether it would be more appropriate to apply the sanction range other than that specified for the firm's size include the following: the firm's financial resources, the nature of the firm's business, the number of firm customers, and the level of trading activity at the firm. This list is included for illustrative purposes and is not exhaustive.

- (e) require a respondent firm to certify to FINRA that it has adopted revised supervisory procedures or has completed a task, including requiring that the certification be signed by the chief executive officer or other specific associated person at the firm;
- (f) suspend a respondent firm from opening new customer accounts for a specified period of time;
- (g) require a respondent firm to obtain a FINRA staff “no objection” letter regarding a proposed communication with the public prior to disseminating that communication; or require an individual respondent to obtain a FINRA staff “no objection” letter, in accordance with his or her firm’s procedures, regarding a proposed communication with the public prior to disseminating that communication; or
- (h) require a respondent firm to institute tape recording procedures.

Adjudicators may craft other sanctions specifically designed to prevent the recurrence of misconduct.

The recommended ranges in these guidelines are not absolute. The guidelines suggest, but do not mandate, the range and types of sanctions to be applied. Depending on the facts and circumstances of a case, Adjudicators may determine that no remedial purpose is served by imposing a sanction within the range recommended in the applicable guideline, *i.e.*, that a sanction below the recommended range, or no sanction at all, is appropriate. Conversely, Adjudicators may determine that the misconduct—considered together with any relevant aggravating or mitigating factors—results in aggravating factors not only outweighing, but predominating over other factors. In these cases, the guidelines routinely recommend higher sanctions,

but Adjudicators may impose sanctions above or otherwise outside of a recommended range. For instance, where aggravating factors predominate, Adjudicators may consider barring an individual respondent or expelling a respondent firm, regardless of whether the specific guidelines applicable to the case recommend a bar or expulsion or other less severe sanctions. Adjudicators must always exercise judgment and discretion and consider appropriate aggravating and mitigating factors in determining remedial sanctions in each case. In addition, whether the sanctions are within or outside of the recommended range, Adjudicators must identify the basis for the sanctions imposed.

4. **Aggregation or “batching” of violations may be appropriate for purposes of determining sanctions in disciplinary proceedings.**

The range of monetary sanctions in each case may be applied in the aggregate for similar types of violations rather than per individual violation. For example, it may be appropriate to aggregate similar violations if (a) the violative conduct was unintentional or negligent (*i.e.*, did not involve manipulative, fraudulent or deceptive intent); (b) the conduct did not result in injury to public investors or, in cases involving injury to the public, if restitution was made; or (c) the violations resulted from a single systemic problem or cause that has been corrected.

Depending on the facts and circumstances of a case, however, multiple violations may be treated individually such that a sanction is imposed for each violation. In addition, numerous, similar violations may warrant higher sanctions because the existence of multiple violations may be treated as an aggravating factor.



5. **Where appropriate to remediate misconduct, Adjudicators should order restitution.** Restitution is a traditional remedy used to restore the status quo ante where a victim otherwise would unjustly suffer loss. Adjudicators may determine that restitution is an appropriate sanction where necessary to remediate misconduct. Adjudicators may order restitution when an identifiable person, member firm, or other party has suffered a quantifiable loss proximately caused by a respondent's misconduct.<sup>4</sup> Adjudicators should calculate orders of restitution based on the actual amount of the loss sustained by a person, member firm, or other party, as demonstrated by the evidence. Orders of restitution may exceed the amount of the respondent's ill-gotten gain. Restitution serves an important purpose that is distinct from a fine and should be ordered in addition to a fine that is imposed. Restitution orders must include a description of the Adjudicator's method of calculation.

When a member firm has compensated a customer or other party for losses caused by an individual respondent's misconduct, Adjudicators may order that the individual respondent reimburse the firm.

Where appropriate, Adjudicators may order that a respondent offer rescission to an injured party.

6. **To remediate misconduct, Adjudicators should consider a respondent's ill-gotten gain when determining an appropriate remedy.** In cases in which the record demonstrates that the respondent obtained a financial benefit<sup>5</sup> from his or her misconduct, where appropriate to remediate misconduct, Adjudicators may require the disgorgement of such ill-gotten gain by ordering disgorgement of some or all of the financial benefit derived, directly or indirectly. Disgorgement serves an important purpose that is

distinct from a fine and should be ordered in addition to a fine that is imposed. In appropriate cases, Adjudicators may order that the respondent's ill-gotten gain be disgorged and that the financial benefit, directly and indirectly, derived by the respondent be used to redress harms suffered by customers. In cases in which the respondent's ill-gotten gain is ordered to be disgorged to FINRA, and FINRA collects the full amount of the disgorgement order, FINRA's routine practice is to contribute the amount collected to the FINRA Investor Education Foundation.

7. **Where appropriate, Adjudicators should consider sanctions previously imposed by other regulators or previous corrective action imposed by a firm on an individual respondent based on the same conduct.** A final action by another regulator against an individual respondent for the same misconduct is a potentially mitigating circumstance. When Adjudicators consider a respondent's claim of sanctions imposed by another regulator, the respondent must show that the conduct at issue before the other regulator was essentially identical and that any fine has already been fully paid, any suspension has been fully served, and any other sanction has been satisfactorily completed. When another regulator's sanction applies to misconduct that is not substantially similar to violations found by FINRA, Adjudicators should accord commensurately less mitigative weight, if any, based on their assessment of the extent of the overlap between the two cases.

For an individual respondent, Adjudicators should acknowledge firms that address an individual's misconduct by taking corrective action. A firm-imposed fine or suspension is most comparable to FINRA-imposed sanctions when FINRA's sanctions would have also included a fine or suspension, and Adjudicators should consider according

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4. Other avenues, such as arbitration, are available to injured customers as a means to redress grievances.

5. "Financial benefit" includes any commissions, concessions, revenues, profits, gains, compensation, income, fees, other remuneration, or other benefits the respondent received, directly or indirectly, as a result of the misconduct.

some mitigative weight where these firm-imposed sanctions have already been fully satisfied by a respondent. With regard to a firm's prior termination of the respondent's employment based on the same conduct at issue in a subsequent FINRA disciplinary proceeding, Adjudicators should consider whether a respondent has demonstrated that the termination qualifies for any mitigative value, keeping in mind the goals of investor protection and maintaining high standards of business conduct. Among other things, the respondent has the burden to prove that a firm's termination of the respondent's employment has materially reduced the likelihood of misconduct in the future. In cases where a respondent's misconduct is serious, Adjudicators may find—even considering a firm's prior termination of the respondent's employment for the same misconduct at issue—that there is no guarantee of changed behavior and therefore may impose the sanction of a bar.<sup>6</sup> FINRA has determined that how long a respondent takes to regain employment, loss of salary, and other impacts of an employment termination are collateral consequences of being terminated and should not be considered as mitigating by Adjudicators.<sup>7</sup>

8. **Where appropriate, Adjudicators should require a respondent to requalify in any or all capacities.** The remedial purpose of disciplinary sanctions may be served by requiring an individual respondent to requalify by examination as a condition of continued association with a FINRA member. Such a sanction may be imposed when Adjudicators find that a respondent's actions have demonstrated a lack of knowledge or familiarity with the rules and laws governing the securities industry.

9. **When raised by a respondent, Adjudicators are required to consider inability to pay in connection with the imposition, reduction, or waiver of a fine or restitution.** Adjudicators are required to consider a respondent's *bona fide* inability to pay when imposing a fine or ordering restitution. The burden is on the respondent to raise the issue of inability to pay and to provide evidence thereof.<sup>8</sup> If a respondent does not raise the issue of inability to pay during the initial consideration of a matter before "trial-level" Adjudicators, Adjudicators considering the matter on appeal generally will presume the issue of inability to pay to have been waived (unless the inability to pay is alleged to have resulted from a subsequent change in circumstances). Adjudicators should require respondents who raise the issue of inability to pay to document their financial status through the use of standard documents that FINRA staff can provide. Proof of inability to pay need not result in a reduction or waiver of a fine, restitution, or disgorgement order, but could instead result in the imposition of an installment payment plan or another alternate payment option. In cases in which Adjudicators modify a monetary sanction based on a *bona fide* inability to pay, the written decision should so indicate. Although Adjudicators must consider a respondent's *bona fide* inability to pay when the issue is raised by a respondent, monetary sanctions imposed on firms need not be related to or limited by a firm's required minimum net capital.

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6. See *Denise M. Olson*, Exchange Act Release No. 75837 (Sept. 3, 2015); see also *Dep't of Enforcement v. Doherty*, Complaint No. 2015047005801, 2020 FINRA Discip. LEXIS 29, at \*17-20 (FINRA NAC June 15, 2020).

7. See *Dep't of Enforcement v. Doherty*, Complaint No. 2015047005801, 2020 FINRA Discip. LEXIS 29, at \*21 (FINRA NAC June 15, 2020).

8. See *In re Toney L. Reed*, Exchange Act Release No. 37572 (August 14, 1996), wherein the Securities and Exchange Commission directed FINRA to consider financial ability to pay when ordering restitution. In these guidelines, the NAC has explained its understanding of the Commission's directives to FINRA based on the *Reed* decision and other Commission decisions. See also *Dep't of Enforcement v. Wood (Arthur W.) Co.*, Complaint No. 2011025444501, 2017 FINRA Discip. LEXIS 30, at \*45 (FINRA NAC March 15, 2017).

## Principal Considerations in Determining Sanctions

The following list of factors should be considered in conjunction with the imposition of sanctions with respect to all violations. Guidelines may list additional violation-specific factors.

Although many of the general and violation-specific considerations, when they apply in the case at hand, have the potential to be either aggravating or mitigating, some considerations have the potential to be only aggravating or only mitigating. For instance, the presence of certain factors may be aggravating, but their absence does not draw an inference of mitigation.<sup>9</sup> The relevancy and characterization of a factor depends on the facts and circumstances of a case and the type of violation. This list is illustrative, not exhaustive; as appropriate, Adjudicators should consider case-specific factors in addition to those listed here and in the specific guidelines.

1. An individual respondent's relevant disciplinary and arbitration history, or a respondent firm's relevant disciplinary history (see General Principle No. 2).
2. Whether an individual respondent or respondent firm accepted responsibility for and acknowledged the misconduct to his or her employer (in the case of an individual) or a regulator prior to detection and intervention by the firm (in the case of an individual) or a regulator.
3. Whether an individual respondent or respondent firm voluntarily employed subsequent corrective measures, prior to detection or intervention by the firm (in the case of an individual) or by a regulator, to revise general or specific procedures to avoid recurrence of misconduct.
4. Whether the individual respondent or respondent firm voluntarily and reasonably attempted, prior to detection and intervention, to pay restitution or otherwise remedy the misconduct.
5. Whether, at the time of the violation, the respondent firm had developed reasonable supervisory, operational or technical procedures or controls that were properly implemented.
6. Whether, at the time of the violation, the respondent firm had developed adequate training and educational initiatives.
7. Whether the individual respondent or respondent firm demonstrated reasonable reliance on competent legal or accounting advice.
8. Whether the individual respondent or respondent firm engaged in numerous acts or a pattern of misconduct.
9. Whether the individual respondent or respondent firm engaged in the misconduct over an extended period of time.
10. Whether the respondent firm attempted to conceal the misconduct or to lull into inactivity, mislead, deceive, or intimidate a customer or regulatory authorities; or whether the individual respondent attempted to conceal his or her misconduct or lull into inactivity, mislead, deceive, or intimidate a customer, regulatory authorities, or the member firm with which he or she is or was associated.
11. With respect to other parties, including the investing public, the member firm with which an individual respondent is associated, or other market participants, (a) whether the individual respondent's or respondent firm's misconduct resulted directly or indirectly in injury to such other parties, and (b) the nature and extent of the injury.

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9. See, e.g., *Dep't of Enforcement v. C.L. King & Assocs., Inc.*, Complaint No. 2014040476901, 2019 FINRA Discip. LEXIS 43, at \*133 (FINRA NAC Oct. 2, 2019).

12. Whether the individual respondent or respondent firm provided substantial assistance to FINRA in its examination or investigation of the underlying misconduct, or whether the individual respondent or respondent firm attempted to delay FINRA's investigation, to conceal information from FINRA, or to provide inaccurate or misleading testimony or documentary information to FINRA.
  13. Whether the individual respondent's or respondent firm's misconduct was the result of an intentional act, recklessness, or negligence.
  14. Whether the individual respondent or respondent firm engaged in the misconduct at issue notwithstanding prior warnings from FINRA, another regulator, or a supervisor (in the case of an individual respondent) that the conduct violated FINRA rules or applicable securities law or regulations.
  15. Whether the respondent firm can demonstrate that the misconduct at issue was aberrant or not otherwise reflective of the firm's historical compliance record.
  16. Whether the individual respondent's or respondent firm's misconduct resulted in the potential for the respondent's monetary or other gain.
  17. The number, size, and character of the transactions at issue.
  18. The level of sophistication of the injured or affected customer.
  19. Whether the individual respondent or respondent firm exercised undue influence over the customer or the customer had a mental or physical impairment that rendered the person unable to protect his or her own interests.
  20. Whether the customer is age 65 or older.
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## Applicability

These guidelines supersede prior editions of the *FINRA Sanction Guidelines*, whether published in a booklet or discussed in *FINRA Regulatory Notices*. These guidelines are effective as of the date of publication, and apply to all disciplinary matters, including pending matters. FINRA may, from time to time, amend these guidelines and announce the amendments in a *Regulatory Notice* or post the changes on FINRA's website ([www.finra.org](http://www.finra.org)). Additionally, the NAC may, on occasion, specifically amend a particular guideline through issuance of a disciplinary decision. Amendments accomplished through the NAC decision-making process or announced via *Regulatory Notices* or on the FINRA website should be treated like other amendments to these guidelines, even before publication of a revised edition of the *FINRA Sanction Guidelines*. Interested parties are advised to check FINRA's website carefully to ensure that they are using the most current version of these guidelines.

## Technical Matters

**Calculation of days of suspension.** These guidelines specify that suspensions of 10 days or less should be business-day suspensions. For any suspensions longer than 10 business days, the guidelines recommend suspensions using calendar weeks, months, and years.

**Censures.** These guidelines do not specifically recommend whether Adjudicators should impose censures under any of the sanction guidelines for particular violations. In the following two instances, however, Adjudicators generally should not impose censures: (1) in cases in which the total monetary sanction (fines, disgorgement, and restitution) is \$5,000 or less and (2) in cases in which an Adjudicator imposes a bar, expulsion, or suspension. Adjudicators should impose censures in cases in which fines above \$5,000 are reduced or eliminated due to a respondent's inability to pay or bankruptcy. Adjudicators also may impose censures in cases in which this policy would suggest no censure if the Adjudicator determines that extraordinary circumstances exist.

**Fines.** Fines may be imposed individually as to each respondent in a case, or jointly and severally between an individual respondent and a firm respondent, between individual respondents, or among several respondents.

### **Monetary sanctions—Imposition and collection of monetary sanctions.**

FINRA has identified the circumstances under which Adjudicators generally will impose, and FINRA generally will collect, monetary sanctions. Because the overriding purpose of all disciplinary sanctions is to remedy misconduct, deter future misconduct, and protect the investing public, Adjudicators may exercise their discretion in applying FINRA's policy on the imposition and collection of monetary sanctions as necessary to achieve FINRA's regulatory purposes.

- Adjudicators generally should not impose a fine if an individual is barred and there is no customer loss.
- Adjudicators generally should not impose a fine if an individual is barred and the Adjudicator has ordered restitution or disgorgement of ill-gotten gains as appropriate to remediate the misconduct.
- Nevertheless, Adjudicators generally should impose a fine and require payment of restitution and disgorgement even if an individual is barred in all sales practice cases if:
  - the case involves widespread, significant, and identifiable customer harm; or
  - the respondent has retained substantial ill-gotten gains.
- Adjudicators may, in their discretion, impose a suspension and a fine, and may require proof of payment of the fine when an individual re-associates with a FINRA member.<sup>10</sup>

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10. Adjudicators have the discretion to impose post-judgment interest on restitution orders.

**Monetary sanctions—Payment of monetary sanctions.** Respondents may be permitted to pay fines and costs through an installment payment plan. Installment payment plans generally will be limited to two years (although in extraordinary cases, installment payment plans may be extended to not more than five years). Respondents who are allowed to utilize an installment payment plan will be required to execute promissory notes that track the installment payment plan.

**Organization.** These guidelines are organized into 11 subject-matter categories within each of the firm and individual sections, and each category is arranged alphabetically by name. In addition, the index lists all the guidelines alphabetically by name.

**Restitution—Payment of interest.** When ordering restitution, Adjudicators may consider requiring the payment of interest on the base amount. Generally, interest runs from the dates of the violative conduct and should be calculated at the rate established for the underpayment of federal income tax in Section 6621 of the Internal Revenue Code, 26 U.S.C. Section 6621(a)(2). Interest should be compounded daily consistent with 26 U.S.C. Section 6622(a). Adjudicators may order payment to a state escheat fund of any amount that a respondent is not able to pay in restitution because he or she is unable, after reasonable and documented efforts, to locate a customer or other party to whom payment is owed.

**Suspensions, bars, and expulsions.** These guidelines recommend suspensions that do not exceed two years. This upper limit is recommended because of the NAC's sense that, absent extraordinary circumstances, any misconduct so serious as to merit a suspension of more than two years probably should warrant a bar (of an individual) from being associated with a FINRA member or expulsion (of a member firm) from FINRA membership. Notwithstanding the NAC's recommendation in these guidelines to impose suspensions that do not exceed two years, under FINRA's rules, an Adjudicator may suspend the membership of a member or the registration of a person associated with a member for a definite period that may exceed two years or for an indefinite period with a termination contingent on the performance of a particular act.

It should be noted that an individual who is barred from associating with a member firm in any capacity generally may not re-associate with a member firm. Although a barred individual may seek special permission to re-associate with a member firm via FINRA's eligibility process, to date, the NAC has disfavored applications for re-entry.

# FIRM

## **I. Activity Away from Associated Person's Member Firm**

- Outside Business Activities
- Selling Away (Private Securities Transactions)



## Outside Business Activities

FINRA Rules 3270 and 2010 and FINRA Rule 3270 Supp. Material .01

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The adequacy of the firm's review system, including imposing conditions or limitations on, or prohibitions of, disclosed outside business activities of its registered persons.</li><li>2. Whether the outside business activity involved customers of the firm.</li><li>3. Whether the outside business activity resulted directly or indirectly in injury to other parties, including the investing public, and, if so, the nature and extent of the injury.</li><li>4. The duration of the outside business activity, the number of customers, and the dollar volume of sales.</li><li>5. Whether the registered person misled his or her firm about the existence of the outside business activity or otherwise concealed the activity from the firm.</li></ol> | <p>Fine of \$5,000 to \$77,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to one month and requiring an undertaking that the firm revise its supervisory procedures for review of outside business activities or retain an independent consultant.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for a period of one month to six months.</p> |

# Selling Away (Private Securities Transactions)

FINRA Rules 3280 and 2010

| Principal Considerations in Determining Sanctions <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The dollar volume of sales.</li><li>2. The number of customers.</li><li>3. The length of time over which the selling away activity occurred.</li><li>4. Whether the product sold away has been found to involve a violation of federal or state securities laws or federal, state, or SRO rules.</li><li>5. Whether the associated person’s selling away activity resulted, either directly or indirectly, in injury to the investing public and, if so, the nature and extent of the injury.</li></ol> | <p>Fine of \$5,000 to \$77,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to one month and requiring an undertaking that the firm revise its supervisory procedures for private securities transactions or retain an independent consultant.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for a period of one month to one year.</p> |

1. If the allegations involve a firm’s failure to supervise the selling away activity, then Adjudicators also should consider the Supervision–Failure to Supervise guideline.

## II. Anti-Money Laundering

- Anti-Money Laundering—Failure to Reasonably Monitor to Report Suspicious Transactions
- Anti-Money Laundering—Deficient AML Compliance Program
- Anti-Money Laundering—Failure to Provide for Independent Testing, Designation of Responsible Individuals, or Training

# Anti-Money Laundering—Failure to Reasonably Monitor to Report Suspicious Transactions

FINRA Rules 3310(a), 3310(f)(ii) and 2010<sup>1</sup>

Adjudicators should use this Guideline when: (1) a firm’s written AML program does not include policies and procedures reasonably designed to detect and cause the reporting of transactions required under 31 U.S.C. § 5318(g) and implementing regulations<sup>2</sup> or (2) a firm’s written AML program includes such policies and procedures but the firm fails to implement them in whole or in part.

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Small Firm Monetary Sanction                                                                                | Midsize or Large Firm Monetary Sanction                | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>See <i>Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm’s monitoring for suspicious transactions was reasonably tailored to the firm’s business.</li><li>Whether the firm failed to detect or investigate “red flags” of suspicious activity.</li><li>Whether the deficiencies in suspicious transaction monitoring allowed reportable activity to escape detection.</li><li>Whether the deficiencies were systemic, widespread, or occurred over an extended period.</li><li>The nature, volume, and dollar value of the transactions at issue, and whether those transactions involved high-risk geographic locations, services, products, or customers.</li><li>Whether the firm failed to timely correct or address deficiencies once identified.</li></ol> | <p>Fine of \$10,000 to \$310,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine beginning at \$50,000 with no upper limit.</p> | <p>Consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to two months and requiring the firm to retain an independent consultant.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for a period of two months to two years or expelling the firm.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-41.  
2. 31 C.F.R. §1023.320.

# Anti-Money Laundering—Deficient AML Compliance Program

FINRA Rules 3310(b) and (f) and 2010<sup>1</sup>

Adjudicators should use this Guideline when a firm’s written AML program does not include policies, procedures, and internal controls reasonably designed to achieve compliance with other requirements of the BSA and implementing regulations, such as 31 C.F.R. § 1023.200 (customer identification program for broker-dealers), 31 C.F.R. § 1010.230 (beneficial ownership requirements for legal entity customers), 31 C.F.R. § 1010.610 (due diligence programs for correspondent accounts for foreign financial institutions), and the requirements related to ongoing customer due diligence at 3310(f) and 31 C.F.R. § 1010.210(b)(5).

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                              | Small Firm Monetary Sanction                                                                                | Midsize or Large Firm Monetary Sanction                                                                     | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the deficiencies in the procedures allowed AML violations to escape detection.</li><li>The nature, size, and risk profile of the firm’s customer base.</li><li>The risk profile of the firm’s products, services, and geographic locations.</li><li>The quality and degree of the firm’s implementation of its written AML program.</li></ol> | <p>Fine of \$10,000 to \$100,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$20,000 to \$310,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to two months and requiring the firm to retain an independent consultant.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for a period of two months to two years or expelling the firm.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-41.

Anti-Money Laundering—Failure to Provide for Independent Testing, Designation of Responsible Individuals, or Training

FINRA Rules 3310(c), (d), and (e) and 2010<sup>1</sup>

Adjudicators should use this Guideline when a firm does not develop and implement a written AML program that provides for timely and independent testing of the firm’s AML program, the designation and identification to FINRA of individuals responsible for the day-to-day operations and internal controls of the AML program, or ongoing training for appropriate personnel.

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                     | Small Firm Monetary Sanction                                                                              | Midsize or Large Firm Monetary Sanction                                                                     | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>See <i>Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the deficiencies allowed reportable activity or AML violations to escape detection.</li><li>The quality and degree of the firm’s implementation of its written AML program.</li><li>The length of time the firm failed to provide for independent testing, designate a responsible individual or individuals, or provide ongoing training.</li></ol> | <p>Fine of \$5,000 to \$50,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$20,000 to \$200,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to one month and consider requiring the firm to retain an independent consultant.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for a period of one month to one year.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-41.

### III. Distributions of Securities

- Corporate Financing Rule—Failure to Comply with Filing Requirements
- Corporate Financing Rule—Unfair or Unreasonable Underwriting Compensation
- Escrow Violations—Prohibited Representations in Contingency Offerings; Transmission or Maintenance of Customer Funds in Underwritings
- Sales of Unregistered Securities

Corporate Financing Rule—Failure to Comply with Filing Requirements

FINRA Rules 5110 and 2010

|                                                                                                                              |                                                                                 |                                                                                              |                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div>Principal Considerations in Determining Sanctions</div> <div>See Principal Considerations in Introductory Section</div> | <div>Small Firm Monetary Sanction</div> <div>Fine of \$5,000 to \$39,000.</div> | <div>Midsize or Large Firm Monetary Sanction</div> <div>Fine of \$10,000 to \$100,000.</div> | <div>Suspension, Expulsion, or Other Sanctions</div> <div>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for five business days.</div> |
|------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



# Corporate Financing Rule—Unfair or Unreasonable Underwriting Compensation

FINRA Rules 5110 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                            | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <p>1. The percentage and dollar amount of unfair or unreasonable underwriting compensation as compared to maximum amount of underwriting compensation considered fair and reasonable.</p> | <p>Fine of \$5,000 to \$77,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Consider suspending the firm with respect to the relevant business lines or activities for five business days.</p> <p>Where aggravating factors predominate, consider suspending the firm for a longer period.</p> |

## Escrow Violations—Prohibited Representations in Contingency Offerings; Transmission or Maintenance of Customer Funds in Underwritings

Exchange Act Rules 15c2-4 and 10b-9 and FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Small Firm Monetary Sanction                                                                                                                         | Midsize or Large Firm Monetary Sanction                                                                                                                 | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"> <li>1. The amount of commissions or other underwriting compensation retained by the firm.</li> <li>2. Whether the firm or the firm's associated person was affiliated with the issuer or other entity to which customer funds were released.</li> <li>3. Whether subscription funds were released from escrow before the contingency occurred.</li> </ol> <p><b>Exchange Act Rule 15c2-4</b></p> <ol style="list-style-type: none"> <li>1. The extent to which customer funds were exposed to risk or loss.</li> </ol> <p><b>Exchange Act Rule 10b-9</b></p> <ol style="list-style-type: none"> <li>1. The extent of the failure to satisfy the contingency described in the prospectus or offering circular.</li> <li>2. Whether the firm used non-<i>bona fide</i> sales to give the false appearance that the contingency was satisfied.</li> </ol> | <p><b>Exchange Act Rule 15c2-4</b></p> <p>Fine of \$5,000 to \$16,000.</p> <p><b>Exchange Act Rule 10b-9</b></p> <p>Fine of \$5,000 to \$77,000.</p> | <p><b>Exchange Act Rule 15c2-4</b></p> <p>Fine of \$10,000 to \$40,000.</p> <p><b>Exchange Act Rule 10b-9</b></p> <p>Fine of \$10,000 to \$200,000.</p> | <p><b>Exchange Act Rule 15c2-4</b></p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to six weeks.</p> <p><b>Exchange Act Rule 10b-9</b></p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years.</p> |

## Sales of Unregistered Securities

Section 5 of the Securities Act of 1933 and FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Small Firm Monetary Sanction                                                                                                                                                                                                                                                                    | Midsize or Large Firm Monetary Sanction                                                                                                                                                                                                                            | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"> <li>Whether the firm's unregistered securities sales resulted from an intentional act, recklessness, or negligence.</li> <li>Whether the firm sold before the effective date of a registration statement.</li> <li>The share volume of transactions, dollar amount of transactions, and amount of compensation earned by the firm on the transactions involved.</li> <li>Whether the sales of unregistered securities were made in connection with an attempt to evade regulatory oversight.</li> <li>Whether the firm had implemented procedures that were reasonably designed to ensure that it did not participate in an unregistered distribution.</li> <li>Whether the firm disregarded "red flags" suggesting the presence of an unregistered distribution.</li> <li>Whether the firm's conduct involved a high volume of, or recurring transactions in, penny stocks as defined in Section 3(a)(51) of the Exchange Act or Exchange Act Rule 3a51-1.</li> </ol> | <p>Fine of \$5,000 to \$77,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> <p>Where the firm's conduct involved a high volume of, or recurring transactions in, penny stocks, fine of \$10,000 to \$155,000 or higher where aggravating factors predominate.</p> | <p>Fine of \$10,000 to \$200,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> <p>Where the firm's conduct involved a high volume of, or recurring transactions in, penny stocks, fine beginning at \$50,000 with no upper limit.</p> | <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two months and requiring an undertaking that the firm revise its supervisory procedures for the review of the sale of unregistered securities or retain an independent consultant.</p> <p>Where aggravating factors predominate, or where the firm's conduct involved a high volume of, or recurring transactions in, penny stocks, consider a longer suspension or expulsion.</p> |

## IV. Financial and Operational Practices

- Customer Confirmations
- Customer Protection Rule
- Net Capital Violations
- Recordkeeping Violations

# Customer Confirmations

Exchange Act Rule 10b-10 and FINRA Rules 2232 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                   | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. Nature and materiality of the inaccurate or missing information.</li><li>2. Number of affected confirmations.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$310,000.</p>   | <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two months.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or expulsion.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-15.

# Customer Protection Rule

Exchange Act Rule 15c3-3 and FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                           | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <p>1. The extent to which the firm exposed customer funds to potential risk or loss.</p> | <p>Fine of \$5,000 to \$77,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two months.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or expulsion.</p> |

# Net Capital Violations

Exchange Act Rule 15c3-1 and FINRA Rules 4110(b) and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                              | Small Firm Monetary Sanction                                                                              | Midsize or Large Firm Monetary Sanction                                                                     | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm continued in business while knowing of deficiencies or inaccuracies or the firm voluntarily ceased conducting business because of the deficiencies or inaccuracies.</li><li>Whether the firm attempted to conceal deficiencies or inaccuracies by any means, including “parking” of inventory and inflating “mark-to-market” calculations.</li></ol> | <p>Fine of \$5,000 to \$77,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$10,000 to \$250,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two months.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or expulsion.</p> |

## Recordkeeping Violations

Exchange Act Rules 17a-3 and 17a-4 and FINRA Rules 4511 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Small Firm Monetary Sanction                                                                                                                                                                                  | Midsize or Large Firm Monetary Sanction                                                                                                                                                                        | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature and materiality of inaccurate or missing information.</li><li>2. The type and number of firm records at issue.</li><li>3. Whether inaccurate or missing information was entered or omitted intentionally, recklessly, or negligently.</li><li>4. Whether the violations occurred over an extended period of time or involved a pattern or patterns of misconduct.</li><li>5. Whether the violations allowed other misconduct to occur or to escape detection.</li></ol> | <p>Fine of \$5,000 to \$16,000.</p> <p>Where aggravating factors predominate, consider a fine of \$10,000 to \$155,000.</p> <p>Where significant aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$10,000 to \$40,000.</p> <p>Where aggravating factors predominate, consider a fine of \$20,000 to \$310,000.</p> <p>Where significant aggravating factors predominate, consider a higher fine.</p> | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to two years, or consider expelling the firm.</p> |

1. This guideline also is appropriate for violations of MSRB Rules G-8 and G-9.



## V. Impeding Regulatory Investigations

- Failure to Respond, Failure to Respond Truthfully, Providing a Partial but Incomplete Response, or Failure to Respond in a Timely Manner to Requests Made Pursuant to FINRA Rule 8210

## Failure to Respond, Failure to Respond Truthfully, Providing a Partial but Incomplete Response, or Failure to Respond in a Timely Manner to Requests Made Pursuant to FINRA Rule 8210

FINRA Rules 8210 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Small Firm Monetary Sanction                                                                                                                                                                                                                                                                                | Midsize or Large Firm Monetary Sanction                                                                                                                                                                                                                                                                                         | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <p><b><i>Failure to Respond or Respond Truthfully</i></b></p> <ol style="list-style-type: none"> <li>The importance of the information requested as viewed from FINRA's perspective.</li> </ol> <p><b><i>Providing a Partial but Incomplete Response</i></b></p> <ol style="list-style-type: none"> <li>The importance of the information requested that was not provided as viewed from FINRA's perspective and whether the information provided was relevant and responsive to the request.</li> <li>The number of requests made, the time the firm took to respond, and the degree of regulatory pressure required to obtain a response.</li> <li>The reasons offered by the firm to justify the partial but incomplete response.</li> </ol> <p><b><i>Failure to Respond in a Timely Manner</i></b></p> <ol style="list-style-type: none"> <li>The importance of the information requested as viewed from FINRA's perspective.</li> <li>The number of requests made, the time the firm took to respond, and the degree of regulatory pressure required to obtain a response.</li> </ol> | <p><b><i>Failure to Respond or to Respond Truthfully</i></b></p> <p>Fine of \$25,000 to \$310,000.</p> <p><b><i>Providing a Partial but Incomplete Response</i></b></p> <p>Fine of \$10,000 to \$77,000.</p> <p><b><i>Failure to Respond in a Timely Manner</i></b></p> <p>Fine of \$5,000 to \$39,000.</p> | <p><b><i>Failure to Respond or to Respond Truthfully</i></b></p> <p>Fine beginning at \$50,000 with no upper limit.</p> <p><b><i>Providing a Partial but Incomplete Response</i></b></p> <p>Fine of \$20,000 to \$200,000.</p> <p><b><i>Failure to Respond in a Timely Manner</i></b></p> <p>Fine of \$10,000 to \$100,000.</p> | <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two years. Where aggravating factors predominate, expel the firm.</p> <p>Where the firm failed to respond in a timely manner, consider suspending the firm with respect to the relevant business lines or activities for up to two months.</p> |

## VI. Improper Use of Funds

- Conversion; or Improper Use of Funds or Securities

## Conversion; or Improper Use of Funds or Securities

FINRA Rules 2150(a) and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                  | Small Firm Monetary Sanction                                                                                                                          | Midsize or Large Firm Monetary Sanction                                                                                                     | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> | <p><b>Conversion<sup>2</sup></b></p> <p>No fine in light of recommended expulsion.</p> <p><b>Improper Use</b></p> <p>Fine of \$5,000 to \$77,000.</p> | <p><b>Conversion</b></p> <p>No fine in light of recommended expulsion.</p> <p><b>Improper Use</b></p> <p>Fine of \$10,000 to \$310,000.</p> | <p><b>Conversion</b></p> <p>Expel the firm regardless of amount converted.</p> <p><b>Improper Use</b></p> <p>Consider an expulsion. Where mitigation exists, consider suspending the firm with respect to the relevant business lines or activities for a period of three months to two years and thereafter until the firm pays restitution.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-25.

2. Conversion generally is an intentional and unauthorized taking of and/or exercise of ownership over property by one who neither owns the property nor is entitled to possess it.

## VII. Qualification and Membership

- Branch Offices—Failure to Register
- Firm Allowing Disqualified Person to Associate Prior to Approval
- Registration Violations
- Unapproved Changes in Ownership, Control, or Business Operations

# Branch Offices—Failure to Register

FINRA Rules 3110 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                               | Small Firm Monetary Sanction       | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The number of branch office locations not properly registered.</li><li>2. The duration of the period when branch offices were not properly registered.</li><li>3. The manner and scope of activities conducted in branch offices not properly registered.</li></ol> | <p>Fine of \$2,500 to \$7,000.</p> | <p>Fine of \$5,000 to \$15,000.</p>     | <p>Where aggravating factors predominate, consider suspending the firm or the branch office at issue with respect to the relevant business lines or activities for up to five business days.</p> |

# Firm Allowing Disqualified Person to Associate Prior to Approval

FINRA Rules 1210 and 2010 and Article III, Section 3 of the FINRA By-Laws<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                 | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature and extent of the disqualified person's activities and responsibilities.</li><li>2. Whether Form MC-400 application was pending.</li><li>3. Whether disqualification resulted from banking, insurance, or securities misconduct.</li></ol> | <p>Fine of \$5,000 to \$77,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years.</p> |

<sup>1</sup> This guideline also is appropriate for violations of MSRB Rule G-4.

# Registration Violations

FINRA Rules 1210, 1220, and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                            | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <p>1. The nature, extent, and duration of the unregistered person's responsibilities.</p> | <p>Fine of \$5,000 to \$77,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two months.</p> |

1. This guideline also is appropriate for violations of MSRB Rules G-2 and G-3.



# Unapproved Changes in Ownership, Control, or Business Operations

FINRA Rules 1017 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm breached a material provision of the membership agreement.</li><li>Whether the firm breached a provision of the membership agreement that contained a restriction that was particular to the firm.</li><li>Whether the firm had applied for, was in the process of applying for, or had been denied a waiver of a restriction at the time of the misconduct.</li></ol> | <p>Fine of \$5,000 to \$77,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors exist, consider suspending the firm with respect to the relevant business lines or activities for up to six months.</p> <p>Where aggravating factors predominate, consider expelling the firm.</p> |

## VIII. Quality of Markets

- Best Execution
- Consolidated Audit Trail System—Late Reporting; Failing to Report; False, Inaccurate or Misleading Reporting; and Clock Synchronization Failure
- Display of Customer Limit Orders
- Extended Hours Trading Risk Disclosure
- Locking or Crossing Quotations
- Marking the Open or Marking the Close
- Options Exercise and Positions Limits
- Options Positions Reporting—Late Reporting; Failing to Report; and False, Inaccurate, or Misleading Reporting
- Reports of Execution Quality and Order Routing
- Short Interest Reporting
- Short Sale Violations
- Trade Reporting and Compliance Engine (TRACE)—Late Reporting, Failing to Report, and False, Inaccurate, or Incomplete Reporting
- Trade Reporting—Late Reporting; Failing to Report; and False, Inaccurate, or Misleading Reporting
- Trading Ahead of Customer Orders

## Best Execution

FINRA Rules 5310 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Small Firm Monetary Sanction          | Midsize or Large Firm Monetary Sanction                | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"> <li>1. The nature of the best execution violation (<i>e.g.</i>, whether the execution was at an inferior price or was untimely).</li> <li>2. Whether the firm failed to conduct reasonable regular and rigorous or order-by-order reviews of execution quality that considered all relevant factors (<i>e.g.</i>, potential for price improvement).</li> <li>3. Whether the firm considered modifying its routing arrangements.</li> <li>4. Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li> <li>5. The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li> <li>6. The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li> <li>7. For securities with limited quotations or pricing information available, whether the character of the market for the security was reasonably assessed, including an analysis of price, volatility, and relative liquidity, and whether reliable sources of pricing information or potential liquidity were considered.</li> <li>8. The number of affected customers and customer harm.</li> </ol> | <p>Fine of \$10,000 to \$310,000.</p> | <p>Fine beginning at \$50,000 with no upper limit.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to two months.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the firm with respect to the relevant business lines or activities for a period of two months to two years. Where aggravating factors predominate, consider expelling the firm.</p> |

1. This guideline also may be appropriate for violations of MSRB Rules G-18 and G-30.

**Consolidated Audit Trail System (CAT)—Late Reporting; Failing to Report; False, Inaccurate, or Misleading Reporting; and Clock Synchronization Failure**

FINRA Rules 6800 *et seq.*<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature of the CAT reporting violation.</li><li>2. Extent to which violative conduct affected the regulatory audit trail.</li><li>3. Whether violation occurred over an extended period of days.</li><li>4. Whether reporting violation was readily apparent from a review of reporting metric information provided to the CAT Reporters through the CAT Reporter Portal and in feedback files.</li><li>5. Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>6. The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li><li>7. The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two months. Where aggravating factors predominate, consider a suspension of up to two years or expulsion.</p> |

1. This guideline also is appropriate for Order Audit Trail System (OATS) reporting violations.

# Display of Customer Limit Orders

Regulation NMS Rule 604 and FINRA Rules 6460 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the customer limit order was executed during the period of non-compliance and whether other transactions were executed at prices equal to or better than that customer limit order.</li><li>Whether the misconduct had an impact on market transparency.</li><li>Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li><li>The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$310,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years or expelling the firm.</p> |

# Extended Hours Trading Risk Disclosure

FINRA Rules 2265 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                    | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm failed to provide customers with a risk disclosure statement.</li><li>Whether the firm provided customers with an inadequate risk disclosure statement or provided customers a risk disclosure statement in an untimely, misleading, or incomplete manner.</li><li>The nature, quality, and timing of the risk disclosure provided to customers.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for a period of up to two years.</p> |

# Locking or Crossing Quotations

FINRA Rules 6240, 6437, and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the locking or crossing quotations affected the market at a particularly sensitive time, such as at the market open, at commencement of secondary trading or on an expiration date.</li><li>Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li><li>The level of care that the firm exercised in undertaking necessary steps to correct technology-related malfunctions and manual errors.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years or expelling the firm.</p> |

## Marking the Open or Marking the Close

FINRA Rules 5210 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Small Firm Monetary Sanction                                                                                | Midsize or Large Firm Monetary Sanction                | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"> <li>Whether the misconduct resulted in protecting a securities position or enhancing size.</li> <li>Whether the firm received a benefit from the misconduct, including but not limited to increased valuation of inventory, avoidance of margin calls, or impact on month-end performance.</li> <li>Whether the activity affected the market at a particularly sensitive time, such as on the expiration date of an option or the end of the month.</li> <li>Whether the misconduct was an isolated incident involving one stock or a systemic pattern of behavior involving multiple stocks.</li> </ol> | <p>Fine of \$25,000 to \$310,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine beginning at \$50,000 with no upper limit.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two months.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the firm with respect to any or all activities or functions for up to two years.</p> <p>Where aggravating factors predominate, consider expelling the firm.</p> |

1. This guideline also is appropriate for violations of Sections 10(b) and 15(c)(1) of the Exchange Act, the applicable rules and regulations thereunder, and MSRB Rules G-17 and G-47.



# Options Exercise and Positions Limits

FINRA Rules 2360(b)(3), 2360(b)(23), and 2010

|                                                                                                                              |                                                                                  |                                                                                              |                                                                                                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div>Principal Considerations in Determining Sanctions</div> <div>See Principal Considerations in Introductory Section</div> | <div>Small Firm Monetary Sanction</div> <div>Fine of \$5,000 to \$155,000.</div> | <div>Midsize or Large Firm Monetary Sanction</div> <div>Fine of \$10,000 to \$200,000.</div> | <div>Suspension, Expulsion, or Other Sanctions</div> <div>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years.</div> |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

# Options Positions Reporting—Late Reporting; Failing to Report; and False, Inaccurate, or Misleading Reporting

FINRA Rules 2360(b)(5) and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                            | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>The size of the positions not reported.</li><li>The duration of the period for which the firm violated rule requirements.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years.</p> |

# Reports of Execution Quality and Order Routing

Regulation NMS Rules 605 and 606 and FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Small Firm Monetary Sanction          | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The number of affected reports or orders.</li><li>2. Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>3. The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li><li>4. The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li></ol> | <p>Fine of \$10,000 to \$155,000.</p> | <p>Fine of \$20,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years.</p> |

## Short Interest Reporting

FINRA Rules 4560 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Small Firm Monetary Sanction                                                                               | Midsize or Large Firm Monetary Sanction                                                                     | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The duration for which the firm failed to report short interest or reported short interest incorrectly.</li><li>2. The number and size of positions that the firm failed to report or reported incorrectly.</li><li>3. Whether the firm failed to exercise reasonable supervision of its short interest reporting process or system.</li><li>4. Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>5. The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li><li>6. The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li><li>7. The extent to which the violations affected the public dissemination of short interest data.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$10,000 to \$200,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>For intentional or reckless misconduct, consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to two years.</p> <p>Where aggravating factors predominate, consider expelling the firm.</p> |

# Short Sale Violations

Regulation SHO and FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>The frequency and thoroughness with which the respondent ensured that the technology was operating in compliance with applicable rules.</li><li>The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li><li>Whether the violations involved hard-to-borrow securities.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years or expelling the firm.</p> |

# Trade Reporting and Compliance Engine (TRACE)—Late Reporting; Failing to Report; and False, Inaccurate, or Incomplete Reporting

FINRA Rules 6730 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The extent to which the violative conduct affected market transparency, the dissemination of trade information, or the regulatory audit trail.</li><li>2. Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>3. The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li><li>4. The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li><li>5. The duration of the period for which the firm violated rule requirements.</li><li>6. Whether a reporting violation was readily apparent from a review of FINRA's TRACE website (or MSRB's website for violations of MSRB Rule G-14).</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider a suspension of up to two years or expulsion.</p> |

1. This guideline also is appropriate for violations of MSRB Rules G-14 and G-17.

# Trade Reporting—Late Reporting; Failing to Report; and False, Inaccurate, or Misleading Reporting

Equity Trade Reporting Rules and FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. Nature of trade reporting violation.</li><li>2. Whether the violative conduct affected market transparency.</li><li>3. Whether operational problems caused delayed reports.</li><li>4. The duration of the period for which the firm violated rule requirements.</li><li>5. Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>6. The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li><li>7. The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years or expelling the firm.</p> |

# Trading Ahead of Customer Orders

FINRA Rules 5320 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm traded ahead of or failed to execute a customer order.</li><li>Whether the firm diligently chose, installed, and tested technology that nevertheless malfunctioned.</li><li>The frequency and thoroughness with which the firm ensured that the technology was operating in compliance with applicable rules.</li><li>The level of care that the firm exercised in undertaking necessary steps to correct systems-related malfunctions.</li></ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$310,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years.</p> |



## IX. Reporting/Provision of Information

- FOCUS Reports—Late Filing; Failing to File; and Filing False or Misleading Reports
- Forms U4/U5—Late Filing of Forms or Amendments; Failing to File Forms or Amendments; and Filing of False, Misleading or Inaccurate Forms or Amendments
- Regulation M Reports—Late Filing; Failing to File; and False or Misleading Filing
- Reportable Events Under FINRA Rule 4530—Late Reporting and Failing to Report
- Request for Automated Submission of Trading Data—Failure to Respond in a Timely and Accurate Manner

## FOCUS Reports—Late Filing; Failing to File; and Filing False or Misleading Reports

Exchange Act Rule 17a-5 and FINRA Rules 4511 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Small Firm Monetary Sanction                                                                                                                                                         | Midsize or Large Firm Monetary Sanction                                                                                                                                                | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"> <li>1. The number of days late the firm filed the FOCUS report.</li> <li>2. Whether the firm filed the FOCUS report late to delay reporting a recordkeeping, operational, or financial deficiency.</li> <li>3. Whether the firm included inaccurate information in the FOCUS report, the nature of the inaccurate information, and whether the firm was aware at the time that the information was inaccurate.</li> </ol> | <p><i>Late or Inaccurate Filing</i></p> <p>Fine of \$5,000 to \$31,000.</p> <p><i>Failure to File or Filing False or Misleading Reports</i></p> <p>Fine of \$10,000 to \$77,000.</p> | <p><i>Late or Inaccurate Filing</i></p> <p>Fine of \$10,000 to \$80,000.</p> <p><i>Failure to File or Filing False or Misleading Reports</i></p> <p>Fine of \$20,000 to \$200,000.</p> | <p><i>Late or Inaccurate Filing</i></p> <p>Where aggravating factors predominate, consider suspending the firm from all solicited retail business for up to one month.</p> <p><i>Failure to File or Filing False or Misleading Reports</i></p> <p>Consider suspending the firm from all solicited retail business for up to two months.</p> |

## Forms U4/U5—Late Filing of Forms or Amendments; Failing to File Forms or Amendments; and Filing of False, Misleading, or Inaccurate Forms or Amendments

FINRA Rules 1122 and 2010 and Article V of the FINRA By-Laws<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Small Firm Monetary Sanction                                                                              | Midsize or Large Firm Monetary Sanction                                                                     | Suspension, Expulsion, or Other Sanctions                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"> <li>1. The nature and significance of information at issue.</li> <li>2. The number, nature, and dollar value of the disclosable events at issue.</li> <li>3. Whether the omission of information or the inclusion of false information was done in an intentional effort to conceal information or in an attempt to mislead.</li> <li>4. The duration of the delinquency.</li> <li>5. Whether the failure to disclose or timely disclose delayed any regulatory investigation.</li> <li>6. Whether the failure resulted in a statutorily disqualified individual becoming or remaining associated with a firm.</li> <li>7. Whether the firm's misconduct resulted directly or indirectly in injury to other parties, including the investing public, and, if so, the nature and extent of the injury.</li> </ol> | <p>Fine of \$5,000 to \$77,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$10,000 to \$200,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities until the firm corrects the deficiency.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-7 and for failures to report changes in ownership or control of member firms.

# Regulation M Reports—Late Filing; Failing to File; and False or Misleading Filing

FINRA Rules 5110, 5190, 6275, 6540, and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                    | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether report was late, false, or misleading.</li><li>The number of days that report is late.</li><li>Whether the report contains a significant number of material inaccuracies.</li></ol> | <p>Fine of \$5,000 to \$16,000.</p> | <p>Fine of \$10,000 to \$40,000.</p>    | <p>Where aggravating factors predominate, consider suspending the firm with respect to any or all corporate financing or market-making activities for up to 10 business days and thereafter until the firm accurately files the required reports.</p> |

# Reportable Events Under FINRA Rule 4530—Late Reporting and Failing to Report

FINRA Rules 4530 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Small Firm Monetary Sanction                                                                                                          | Midsize or Large Firm Monetary Sanction                                                                                                  | Suspension, Expulsion, or Other Sanctions                                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The number and type of incidents not reported.</li><li>2. Whether events reported in late reports established a pattern of potential misconduct.</li><li>3. Whether events not reported or reported inaccurately would have established a pattern of potential misconduct.</li><li>4. In cases involving the failure to file or inaccurate filing of a quarterly report, the number and type of incidents not reported or reported inaccurately.</li></ol> | <p><b>Late Reporting</b></p> <p>Fine of \$5,000 to \$77,000.</p> <p><b>Failure to Report</b></p> <p>Fine of \$5,000 to \$155,000.</p> | <p><b>Late Reporting</b></p> <p>Fine of \$10,000 to \$200,000.</p> <p><b>Failure to Report</b></p> <p>Fine of \$20,000 to \$310,000.</p> | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two months.</p> |

# Request for Automated Submission of Trading Data—Failure to Respond in a Timely and Accurate Manner

FINRA Rules 8211, 8213, and 2010

|                                                                                                                              |                                                                                   |                                                                                              |                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div>Principal Considerations in Determining Sanctions</div> <div>See Principal Considerations in Introductory Section</div> | <div>Small Firm Monetary Sanction</div> <div>Fine of \$10,000 to \$155,000.</div> | <div>Midsize or Large Firm Monetary Sanction</div> <div>Fine of \$20,000 to \$310,000.</div> | <div>Suspension, Expulsion, or Other Sanctions</div> <div>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two months.</div> |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## X. Sales Practices

- Churning, Excessive Trading, or Switching
- Communications with the Public—Failure to Comply with Approval, Review, Recordkeeping, and Filing Requirements
- Communications with the Public—Failure to Comply with Content Standards
- Customer Account Transfer Contracts
- Fraud, Misrepresentations, or Omissions of Material Fact
- Pricing—Excessive Markups/Markdowns and Excessive Commissions
- Research Analysts and Research Reports—Relationships, Information Barriers, and Potential Conflicts
- Research Analysts and Research Reports—Research Report Disclosure Requirements
- Research Analysts and Research Reports—Restrictions on Personal Trading
- Suitability—Unsuitable Recommendations
- Telemarketing—Failing to Comply with Time-of-Day Restrictions and Do-Not-Call Lists; Failing to Establish and Maintain Procedures
- Unauthorized Transactions and Failures to Execute Buy or Sell Orders

# Churning, Excessive Trading, or Switching

FINRA Rules 2020, 2111, and 2010 and Exchange Act Regulation Best Interest (Reg BI)<sup>1</sup>

| Principal Considerations in Determining Sanctions    | Small Firm Monetary Sanction  | Midsize or Large Firm Monetary Sanction         | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                      |
|------------------------------------------------------|-------------------------------|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| See Principal Considerations in Introductory Section | Fine of \$5,000 to \$310,000. | Fine beginning at \$50,000 with no upper limit. | <p>Consider suspending the firm with respect to the relevant business lines or activities for up to three months.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for longer than three months or expelling the firm.</p> |

1. This guideline also is appropriate for variable annuity and mutual fund-related violations, violations of Sections 10(b) and 15(c)(1) of the Exchange Act, the applicable rules and regulations thereunder, and violations of MSRB Rule G-17.



# Communications with the Public—Failure to Comply with Approval, Review, Recordkeeping, and Filing Requirements

FINRA Rules 2210 *et seq.* and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                   | Small Firm Monetary Sanction                                                                              | Midsize or Large Firm Monetary Sanction                                                                    | Suspension, Expulsion, or Other Sanctions                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature and extent of failure to review or approve communications.</li><li>2. Whether the failure to review or approve communications resulted in the distribution of false or misleading communications.</li><li>3. Whether the firm failed to file or untimely filed communications with the Advertising Regulation Department as required by the rules.</li></ol> | <p>Fine of \$5,000 to \$31,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$10,000 to \$80,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to six weeks.</p> |

1. This guideline also is appropriate for violations involving institutional communications and for violations of MSRB Rule G-21.

## Communications with the Public—Failure to Comply with Content Standards

FINRA Rules 2210 *et seq.* and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions <sup>2</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"> <li>1. The nature and significance of false, misleading, or omitted information.</li> <li>2. Whether the violative communications with the public were circulated widely.</li> <li>3. Whether the misconduct was the result of an intentional act, recklessness, or negligence.</li> </ol> | <p>Fine of \$5,000 to \$155,000.</p> | <p>Fine of \$10,000 to \$310,000.</p>   | <p>In cases involving negligent use of misleading communications, consider suspending the firm with respect to the relevant business lines or activities for up to six months and thereafter imposing, for a definite period, a “pre-use” filing requirement to obtain a FINRA staff “no objection” letter on proposed communications.</p> <p>In cases involving intentional or reckless use of misleading communications, consider suspending the firm with respect to the relevant business lines or activities for up to 18 months and thereafter imposing, for a definite period, a “pre-use” filing requirement to obtain a FINRA staff “no objection” letter on proposed communications.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years or expelling the firm.</p> |

1. This guideline also is appropriate for violations involving institutional communications and for violations of MSRB Rule G-21.

2. If an Adjudicator is considering suspending a firm's ability to execute transactions in the securities referenced in the violative communications, the Adjudicator should consider the potential ramifications to public investors of such a suspension.

# Customer Account Transfer Contracts

FINRA Rules 11870 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature of the violation.</li><li>2. The firm’s transfer pattern.</li><li>3. The number of days late.</li><li>4. Whether the firm was late with delivery or validation.</li></ol> | <p>Fine of \$5,000 to \$77,000.</p> | <p>Fine of \$10,000 to \$200,000.</p>   | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-26.

## Fraud, Misrepresentations, or Omissions of Material Fact

FINRA Rules 2020 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions           | Small Firm Monetary Sanction                                                                                                                                  | Midsize or Large Firm Monetary Sanction                                                                                                                                          | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| See <i>Principal Considerations in Introductory Section</i> | <p><i>Negligent Misconduct</i></p> <p>Fine of \$5,000 to \$77,000.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Fine of \$25,000 to \$310,000.</p> | <p><i>Negligent Misconduct</i></p> <p>Fine of \$20,000 to \$200,000.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Fine beginning at \$50,000 with no upper limit.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the firm with respect to the relevant business lines or activities for up to three months.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two years. Where aggravating factors predominate, strongly consider expelling the firm.</p> |

1. This guideline also is appropriate for violations of Sections 10(b) and 15(c)(1) of the Exchange Act, Section 17(a) of the Securities Act of 1933, the applicable rules and regulations thereunder, and MSRB Rules G-17 and G-47.

## Pricing—Excessive Markups/Markdowns and Excessive Commissions

FINRA Rules 2121 and 2010 and FINRA Rule 2121 Supp. Material .01 and .02<sup>1</sup>

| <u>Principal Considerations in Determining Sanctions</u>                                                                                                                                                                                                                                                                                                                                                                                                             | <u>Small Firm Monetary Sanction</u>  | <u>Midsize or Large Firm Monetary Sanction</u>         | <u>Suspension, Expulsion, or Other Sanctions</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm dominated and controlled the market in the subject security or securities.</li><li>Whether the firm's supervisory systems appropriately limited the discretion of registered representatives as to the amount of markups, markdowns, or commissions on each trade.</li><li>The number of harmed customers and the customer harm.</li></ol> | <p>Fine of \$5,000 to \$310,000.</p> | <p>Fine beginning at \$50,000 with no upper limit.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider imposing undertakings with respect to the firm's markup/markdown policy or commissions policy.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to two years. Consider imposing undertakings or ordering the firm to engage an independent consultant with respect to the firm's markup/markdown policy or commission policy. Where aggravating factors predominate, consider expelling the firm.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-30.

## Research Analysts and Research Reports—Relationships, Information Barriers, and Potential Conflicts

FINRA Rules 2241, 2242, and 2010

If an adjudicator is evaluating whether to impose a suspension of a firm's relevant activities, the adjudicator should identify if the failure to manage conflicts of interest arose between the research department and the investment banking or trading department or between the research analyst and an issuer.

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                       | Small Firm Monetary Sanction                                                                                                                                                                                                                       | Midsize or Large Firm Monetary Sanction                                                                                                                                                        | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether misconduct resulted in publication of research reports that omitted material information or contained misleading information.</li><li>Whether systemic problems or widespread conflicts existed in the firm.</li></ol> | <p><b><i>Negligent Misconduct</i></b></p> <p>Fine of \$5,000 to \$155,000.</p> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <p>Fine of \$10,000 to \$310,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p><b><i>Negligent Misconduct</i></b></p> <p>Fine of \$10,000 to \$310,000.</p> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <p>Fine beginning at \$50,000 with no upper limit.</p> | <p>Consider suspending the firm's relevant business lines or research activities for a period of one month to two years.</p> <p>Consider requiring the firm to retain an independent consultant to review and make recommendations regarding the adequacy of the firm's supervisory procedures regarding research activities.</p> <p>In cases involving violative relationships between the firm's research department and investment banking department, consider suspending the firm's investment banking activities for a period of three months to two years.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years or expelling the firm.</p> |

## Research Analysts and Research Reports—Research Report Disclosure Requirements

FINRA Rules 2241(c), 2242(c), and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Small Firm Monetary Sanction                                                                               | Midsize or Large Firm Monetary Sanction                | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"> <li>1. The nature of the disclosure failures.</li> <li>2. The number of research reports with disclosure failures.</li> <li>3. The duration of the disclosure failures.</li> <li>4. Whether systemic problems existed regarding research report disclosures within the firm.</li> <li>5. Whether respondent raised price targets, revenue and earnings estimates, or otherwise adjusted research to seek favor with the investment banking department or issuer.</li> </ol> | <p>Fine of \$5,000 to \$310,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine beginning at \$50,000 with no upper limit.</p> | <p>Consider suspending the firm's relevant business lines or its research activities for a period of one month to two years.</p> <p>Consider requiring the firm to retain an independent consultant to review and make recommendations regarding the adequacy of the firm's supervisory procedures regarding research reports.</p> <p>Consider requiring the firm, for a period of six months to two years, to certify monthly that a general securities principal has conducted a pre-distribution review of all research reports.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years or expelling the firm.</p> |

# Research Analysts and Research Reports—Restrictions on Personal Trading

FINRA Rules 2241(b)(2)(j), 2242(b)(2)(j), and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                             | Small Firm Monetary Sanction                                                                                                                                                                                                        | Midsize or Large Firm Monetary Sanction                                                                                                                                          | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm had developed procedures to ensure the proper restrictions or limitations on research analyst trading.</li><li>Whether systemic problems existed regarding personal trading restrictions within the firm.</li></ol> | <p><b>Negligent Misconduct</b></p> <p>Fine of \$5,000 to \$77,000.</p> <p><b>Intentional or Reckless Misconduct</b></p> <p>Fine of \$10,000 to \$310,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p><b>Negligent Misconduct</b></p> <p>Fine of \$10,000 to \$310,000.</p> <p><b>Intentional or Reckless Misconduct</b></p> <p>Fine beginning at \$50,000 with no upper limit.</p> | <p>Consider suspending the firm’s relevant business lines or research activities for a period of one month to two years.</p> <p>Consider requiring the firm to retain an independent consultant to review and make recommendations regarding the adequacy of the firm’s supervisory procedures relating to personal trading of research analysts.</p> <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two years or expelling the firm.</p> |



Suitability—Unsuitable Recommendations

FINRA Rules 2111 and 2010

|                                                                                                                              |                                                                                  |                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div>Principal Considerations in Determining Sanctions</div> <div>See Principal Considerations in Introductory Section</div> | <div>Small Firm Monetary Sanction</div> <div>Fine of \$5,000 to \$116,000.</div> | <div>Midsize or Large Firm Monetary Sanction</div> <div>Fine of \$10,000 to \$310,000.</div> | <div>Suspension, Expulsion, or Other Sanctions</div> <div>Consider suspending the firm with respect to the relevant business lines or activities for up to three months. Where aggravating factors predominate, strongly consider suspending the firm with respect to the relevant business lines or activities for a period of three months to two years or expelling the firm.</div> |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Telemarketing—Failing to Comply with Time of Day Restrictions and Do-Not-Call Lists; Failing to Establish and Maintain Procedures**

FINRA Rules 3230 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Small Firm Monetary Sanction                                                                              | Midsize or Large Firm Monetary Sanction                                                                     | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether violations were widespread within the firm.</li><li>The number of calls that violated restrictions.</li><li>The nature and extent of underlying misconduct that resulted from the deficient procedures, if any.</li><li>Whether firm made reasonable efforts to establish an effective call-blocking system for any persons requesting to be placed on a do-not-call list.</li><li>Whether there were patterns of abuses relating to the time of day telephone calls were placed or to the repeated contacting of persons who previously requested to be placed on a do-not-call list.</li></ol> | <p>Fine of \$5,000 to \$77,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$10,000 to \$200,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Consider suspending the firm’s relevant business lines or activities for up to one month. Where aggravating factors predominate, consider suspending the firm’s relevant business lines or activities for a period of one month to one year.</p> |

# Unauthorized Transactions and Failures to Execute Buy or Sell Orders

FINRA Rule 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Small Firm Monetary Sanction         | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm reasonably misunderstood its authority or the terms of the customer's orders.</li><li>The number of customers affected and the magnitude of the customers' losses, if any.</li><li>The number and dollar value of unauthorized transactions or failures to execute buy or sell orders.</li><li>Whether the firm attempted to conceal the trading or to evade regulatory investigative efforts.</li><li>Whether the unauthorized transactions were made in furtherance of or in connection with another violation (e.g., conversion, improper use of funds, churning, etc.).</li></ol> | <p>Fine of \$5,000 to \$116,000.</p> | <p>Fine of \$10,000 to \$250,000.</p>   | <p>Consider suspending the firm with respect to the relevant business lines or activities for up to two years.</p> |

1. This guideline also is appropriate for violations of MSRB Rules G-17 and G-19.

## **XI. Supervision**

- Supervision—Failure to Supervise
- Supervision—Systemic Supervisory Failures
- Supervisory Procedures—Deficient Written Supervisory Procedures

# Supervision—Failure to Supervise

FINRA Rules 3110 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Small Firm Monetary Sanction                                                                              | Midsize or Large Firm Monetary Sanction                                                                     | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm ignored “red flag” warnings that should have resulted in additional supervisory scrutiny.</li><li>Whether individuals responsible for the underlying misconduct attempted to conceal misconduct from the firm.</li><li>The nature, extent, size, and character of the underlying misconduct.</li><li>Quality and degree of the firm’s implementation of its supervisory procedures and controls.</li></ol> | <p>Fine of \$5,000 to \$77,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine of \$10,000 to \$200,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Consider suspending the branch office or department with respect to the relevant business lines or activities for up to two months.</p> <p>Where aggravating factors predominate, consider suspending the branch office or department with respect to the relevant business lines or activities for a period of two to six months or suspending the firm with respect to the relevant business lines or activities for up to two months. Consider imposing undertakings, including ordering the firm to revise its supervisory systems and procedures or ordering the firm to engage an independent consultant to recommend changes to the firm’s supervisory systems and procedures.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-27.

# Supervision—Systemic Supervisory Failures

FINRA Rules 3110 and 2010<sup>1</sup>

Adjudicators should use this Guideline when a supervisory failure is significant and is widespread or occurs over an extended period of time. While systemic supervisory failures typically involve failures to implement or use supervisory procedures that exist, systemic supervisory failures also may involve supervisory systems that have both ineffectively designed procedures and procedures that are not implemented.

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Small Firm Monetary Sanction                                                                                | Midsize or Large Firm Monetary Sanction                | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the deficiencies allowed violative conduct to occur or to escape detection.</li><li>Whether the firm failed to timely correct or address deficiencies once identified, failed to respond reasonably to prior warnings from FINRA or another regulator, or failed to respond reasonably to other “red flag” warnings.</li><li>Whether the firm appropriately allocated its resources to prevent or detect the supervisory failure.</li><li>The number and type of customers, investors, or market participants affected by the deficiencies.</li><li>The number and dollar value of the transactions not adequately supervised as a result of the deficiencies.</li><li>The nature, extent, size, character, and complexity of the activities or functions not adequately supervised as a result of the deficiencies.</li><li>The extent to which the deficiencies affected market integrity, market transparency, the accuracy of regulatory reports, or the dissemination of trade or other regulatory information.</li></ol> | <p>Fine of \$10,000 to \$310,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Fine beginning at \$50,000 with no upper limit.</p> | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for a period of 10 business days to two years, or consider expelling the firm.</p> <p>Consider imposing undertakings, including ordering the firm to revise its supervisory systems and procedures or ordering the firm to engage an independent consultant to recommend changes to the firm’s supervisory systems and procedures.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-27.

# Supervisory Procedures—Deficient Written Supervisory Procedures

FINRA Rules 3110 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                   | Small Firm Monetary Sanction        | Midsize or Large Firm Monetary Sanction | Suspension, Expulsion, or Other Sanctions                                                                                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the deficiencies allowed violative conduct to occur or to escape detection.</li><li>Whether the deficiencies made it difficult to determine the individual or individuals responsible for specific areas of supervision.</li></ol> | <p>Fine of \$5,000 to \$39,000.</p> | <p>Fine of \$10,000 to \$80,000.</p>    | <p>Where aggravating factors predominate, consider suspending the firm with respect to the relevant business lines or activities for up to two months and thereafter until the supervisory procedures are amended to conform to rule requirements.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-27.

# INDIVIDUAL



## **I. Activity Away from Associated Person's Member Firm**

- Accounts at Other Broker-Dealers and Financial Institutions
- Outside Business Activities
- Selling Away (Private Securities Transactions)

# Accounts at Other Broker-Dealers and Financial Institutions

FINRA Rules 3210 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the violative accounts presented real or perceived conflicts of interest for the employer firm or customers.</li><li>Whether the violative accounts involved violations of the Restrictions on the Purchase and Sale of Initial Public Offerings (FINRA Rule 5130).</li><li>Whether the respondent provided oral notice of the violative transactions to the employer member firm or executing member, and whether the employer member firm orally acquiesced.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> | <p>Consider suspending the respondent in any or all capacities for up to two years or barring the respondent.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-28.

# Outside Business Activities

FINRA Rules 3270 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the outside business activity involved customers of the firm.</li><li>Whether the outside business activity resulted directly or indirectly in injury to other parties, including the investing public, and, if so, the nature and extent of the injury.</li><li>The duration of the outside business activity, the number of customers and the dollar volume of sales.</li><li>Whether the respondent’s marketing and sale of the product or service could have created the impression that the firm had approved the product or service.</li><li>Whether the respondent misled his or her firm about the existence of the outside business activity or otherwise concealed the activity from the firm.</li><li>The importance of the role played by the respondent in the outside business activity.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to three months.</p> <p>Where the outside business activities involve aggravating factors, consider a suspension of up to one year.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or a bar.</p> |

## Selling Away (Private Securities Transactions)

FINRA Rules 3280 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The dollar volume of sales.</li><li>2. The number of customers.</li><li>3. The length of time over which the selling away activity occurred.</li><li>4. Whether the product sold away has been found to involve a violation of federal or state securities laws or federal, state or SRO rules.</li><li>5. Whether the respondent had a proprietary or beneficial interest in, or was otherwise affiliated with, the selling enterprise or issuer and, if so, whether respondent disclosed this information to his or her customers.</li><li>6. Whether respondent attempted to create the impression that his or her employer member firm sanctioned the activity, for example, by using the employer member firm's premises, facilities, name, or goodwill for the selling away activity or by selling a product similar to the products that the employer member firm sells.</li><li>7. Whether the respondent's selling away activity resulted, either directly or indirectly, in injury to the investing public and, if so, the nature and extent of the injury.</li><li>8. Whether the respondent sold away to customers of his or her employer member firm.</li><li>9. Whether the respondent provided his or her employer member firm with oral notice of the details of the proposed transaction and, if so, the firm's oral or written response, if any.</li></ol> <p><i>Continued on the next page.</i></p> | <p>Fine of \$5,000 to \$40,000.</p> | <p>The first step in determining sanctions is to assess the extent of the selling away, including the dollar amount of sales, the number of customers and the length of time over which the selling away occurred. Adjudicators should consider the following range of sanctions based on the dollar amount of sales:</p> <ul style="list-style-type: none"><li>◦ Up to \$100,000 in sales: 10 business days to three months</li><li>◦ \$100,000 to \$500,000: three to six months</li><li>◦ \$500,000 to \$1,000,000: six to 12 months</li><li>◦ Over \$1,000,000: 12 months to a bar</li></ul> <p>Following this assessment, Adjudicators should consider other factors as described in the Principal Considerations for this Guideline and the General Principles applicable to all Guidelines. The presence of one or more aggravating or mitigating factors may either raise or lower the above-described sanctions.</p> |

**Selling Away (Private Securities Transactions)—continued**

FINRA Rules 3280 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Monetary Sanction | Suspension, Bar, or Other Sanctions |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------------------|
| <p><i>Continued from the prior page.</i></p> <p>10. Whether the respondent sold away after being instructed by his or her employer member firm not to sell the type of the product involved or to discontinue selling the specific product involved in the case.</p> <p>11. Whether the respondent participated in the sale by referring customers or selling the product directly to customers.</p> <p>12. Whether the respondent recruited other individuals to sell the product.</p> <p>13. Whether the respondent misled his or her employer member firm about the existence of the selling away activity or otherwise concealed the selling away activity from the firm.</p> |                   |                                     |

## II. Anti-Money Laundering

- Anti-Money Laundering—Failure to Reasonably Monitor to Report Suspicious Transactions
- Anti-Money Laundering—Deficient AML Compliance Program
- Anti-Money Laundering—Failure to Provide for Independent Testing, Designation of Responsible Individuals, or Training

# Anti-Money Laundering—Failure to Reasonably Monitor to Report Suspicious Transactions

FINRA Rules 3310(a), 3310(f)(ii), and 2010<sup>1</sup>

Adjudicators should use this Guideline when a responsible individual fails to implement and monitor the day-to-day operations and internal controls of the firm’s written AML program.

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Monetary Sanction                                                                                         | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent failed to detect or investigate “red flags” of suspicious activity.</li><li>Whether the deficiencies in the suspicious transaction monitoring allowed reportable activity to escape detection.</li><li>Whether the respondent’s failures were systemic, widespread, or occurred over an extended period.</li><li>Whether the respondent was responsible for establishing the firm’s AML compliance program.</li></ol> | <p>Fine of \$5,000 to \$50,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Suspend the respondent in any or all capacities for a period of 10 business days to two months.</p> <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for a period of two months to two years or barring the respondent.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-41.

# Anti-Money Laundering—Deficient AML Compliance Program

FINRA Rules 3310(b) and (f) and 2010<sup>1</sup>

Adjudicators should use this Guideline when a responsible individual fails to ensure that a firm’s written AML program includes policies, procedures, and internal controls reasonably designed to achieve compliance with the BSA and implementing regulations, including 31 C.F.R. § 103.122, Customer Identification Program, 31 C.F.R. § 1010.610, Foreign Financial Institutions and 31 C.F.R. § 1010.230, Ongoing Customer Due Diligence.

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                           | Monetary Sanction                                                                                         | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the deficiencies in the procedures allowed AML violations to escape detection.</li><li>The nature, size, and risk profile of the firm’s customer base.</li><li>The risk profile of the firm’s products, services, and geographic locations.</li><li>The quality and degree of the respondent’s implementation of the firm’s written AML program.</li></ol> | <p>Fine of \$5,000 to \$40,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to two months.</p> <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for a period of two months to two years or barring the respondent.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-41.



Anti-Money Laundering—Failure to Provide for Independent Testing, Designation of Responsible Individuals, or Training

FINRA Rules 3310(c), (d), and (e) and 2010<sup>1</sup>

Adjudicators should use this Guideline when a responsible individual fails to ensure that a firm develops or implements a written AML program that provides for timely and independent testing of the firm’s AML program, the designation and identification to FINRA of individuals responsible for the day-to-day operations and internal controls of the AML program, or ongoing training for appropriate personnel.

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                  | Monetary Sanction                                                                                         | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>See <i>Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent allowed reportable activity or AML violations to escape detection.</li><li>The quality and degree of the respondent’s implementation of the firm’s written AML program.</li><li>The length of time the respondent failed to provide for independent testing or provide ongoing training.</li></ol> | <p>Fine of \$5,000 to \$30,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to one month.</p> <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for a period of one month to one year.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-41.

### III. Distributions of Securities

- Restrictions on the Purchase and Sale of Initial Equity Public Offerings Violations
- Sales of Unregistered Securities

# Restrictions on the Purchase and Sale of Initial Equity Public Offerings Violations

FINRA Rules 5130 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. Nature of restricted accounts involved. Consider whether the account is absolutely or conditionally restricted.</li><li>2. Whether the respondent has any interest in the restricted accounts or has made false statements or omitted information in connection with the account.</li><li>3. Whether the case involves a <i>bona fide</i> dispute regarding normal investment practice, proportion of allocation, or size of allocation.</li><li>4. Whether the respondent engaged in misconduct for the purpose of improperly conferring financial benefit on another person or entity.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to two months.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or a bar.</p> |

## Sales of Unregistered Securities

Section 5 of the Securities Act of 1933 and FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Monetary Sanction                                                                                                                                                                                                                                                                                 | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. Whether the respondent's unregistered securities sales resulted from an intentional act, recklessness, or negligence.</li><li>2. Whether the respondent sold before the effective date of a registration statement.</li><li>3. Share volume of transactions, dollar amount of transactions, and amount of compensation earned by the respondent or the respondent's firm on the transactions involved.</li><li>4. Whether the sales of unregistered securities were made in connection with an attempt to evade regulatory oversight.</li><li>5. Whether the respondent disregarded "red flags" suggesting the presence of an unregistered distribution.</li><li>6. Whether the respondent's conduct involved a high volume of, or recurring transactions in, penny stocks as defined in Section 3(a)(51) of the Exchange Act or Exchange Act Rule 3a51-1.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> <p>Where the respondent's conduct involved a high volume of or recurring transactions in penny stocks: fine of \$5,000 to \$40,000 or higher where aggravating factors predominate.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to six months.</p> <p>Where aggravating factors predominate, or where the respondent's conduct involved a high volume of, or recurring transactions in, penny stocks, suspend the respondent in any or all capacities for up to two years or impose a bar.</p> |

## IV. Financial and Operational Practices

- Net Capital Violations
- Recordkeeping Violations

# Net Capital Violations

FINRA Rules 4110(b) and 2010 and Exchange Act Rule 15c3-1

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the firm continued in business while the respondent knew of deficiencies or inaccuracies or the respondent caused the firm to voluntarily cease conducting business because of the deficiencies or inaccuracies.</li><li>Whether respondent attempted to conceal deficiencies or inaccuracies by any means, including “parking” of inventory and inflating “mark-to-market” calculations.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> | <p>Consider suspending the respondent in any or all capacities for up to two months.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or a bar.</p> |

# Recordkeeping Violations

Exchange Act Rules 17a-3 and 17a-4 and FINRA Rules 4511 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature and materiality of the inaccurate or missing information.</li><li>2. The type and number of records at issue.</li><li>3. Whether the inaccurate or missing information was entered or omitted intentionally, recklessly, or as the result of negligence.</li><li>4. Whether the violations occurred over an extended period of time or involved a pattern or patterns of misconduct.</li><li>5. Whether the violations allowed other misconduct to occur or to escape detection.</li></ol> | <p>Fine of \$2,500 to \$40,000.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to three months.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or a bar.</p> |

1. This guideline also is appropriate for violations of MSRB Rules G-8 and G-9.

## V. Impeding Regulatory Investigations

- Failure to Respond, Failure to Respond Truthfully, Providing a Partial but Incomplete Response, or Failure to Respond in a Timely Manner to Requests Made Pursuant to FINRA Rule 8210
- Settling Customer Complaints Away from the Firm



# Failure to Respond, Failure to Respond Truthfully, Providing a Partial but Incomplete Response, or Failure to Respond in a Timely Manner to Requests Made Pursuant to FINRA Rule 8210

FINRA Rules 8210 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Monetary Sanction                                                                                                                                                                                                                                                                                         | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <p><b><i>Failure to Respond or to Respond Truthfully</i></b></p> <ol style="list-style-type: none"> <li>1. The importance of the information requested as viewed from FINRA's perspective.</li> </ol> <p><b><i>Providing a Partial but Incomplete Response</i></b></p> <ol style="list-style-type: none"> <li>1. The importance of the information requested that was not provided as viewed from FINRA's perspective, and whether the information provided was relevant and responsive to the request.</li> <li>2. The number of requests made, the time the respondent took to respond, and the degree of regulatory pressure required to obtain a response.</li> <li>3. The reasons offered by the respondent to justify the partial but incomplete response.</li> </ol> <p><b><i>Failure to Respond in a Timely Manner</i></b></p> <ol style="list-style-type: none"> <li>1. The importance of the information requested as viewed from FINRA's perspective.</li> <li>2. The number of requests made, the time the respondent took to respond, and the degree of regulatory pressure required to obtain a response.</li> </ol> | <p><b><i>Failure to Respond or to Respond Truthfully</i></b></p> <p>Fine of \$10,000 to \$50,000.</p> <p><b><i>Providing a Partial but Incomplete Response</i></b></p> <p>Fine of \$5,000 to \$20,000.</p> <p><b><i>Failure to Respond in a Timely Manner</i></b></p> <p>Fine of \$2,500 to \$20,000.</p> | <p>If the respondent did not respond in any manner, a bar is standard.</p> <p>Where the respondent provided a partial but incomplete response, a bar is standard unless the person can demonstrate that the information provided substantially complied with all aspects of the request. Where mitigation exists, suspend the respondent in all capacities for up to two years.</p> <p>Where the respondent failed to respond in a timely manner, consider suspending the respondent in all capacities for a period of three months to two years.</p> |

# Settling Customer Complaints Away from the Firm

FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                              | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent provided the employer member firm with notice of settlement and the employer member firm acquiesced, or whether the respondent deceived the employer member firm.</li><li>Whether the actions delayed or prevented the filing of required Forms U4 or U5 or FINRA Rule 4530 reports.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> | <p>Consider suspending the respondent in any or all capacities for up to two years. Where aggravating factors predominate, consider barring the respondent.</p> |

## **VI. Improper Use of Funds/Forgery**

- Conversion; or Improper Use of Funds or Securities
- Forgery, Unauthorized Use of Signatures, or Falsification of Records

# Conversion; or Improper Use of Funds or Securities

FINRA Rules 2150 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions           | Monetary Sanction                                                                                                                                         | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>See Principal Considerations in Introductory Section</i> | <p><b>Conversion<sup>2</sup></b></p> <p>No fine recommended because a bar is standard.</p> <p><b>Improper Use</b></p> <p>Fine of \$5,000 to \$40,000.</p> | <p><b>Conversion</b></p> <p>Bar the respondent regardless of amount converted.</p> <p><b>Improper Use</b></p> <p>Consider a bar. Where the improper use resulted from the respondent's misunderstanding of the intended use of the funds or securities, or other mitigation exists, consider suspending the respondent in any or all capacities for a period of three months to two years and thereafter until the respondent pays restitution.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-25.

2. Conversion generally is an intentional and unauthorized taking of and/or exercise of ownership over property by one who neither owns the property nor is entitled to possess it.

# Forgery, Unauthorized Use of Signatures, or Falsification of Records

FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature of the documents signed or falsified.</li><li>2. Whether the respondent had a good-faith, but mistaken, belief of express or implied authority.</li><li>3. Whether the customer possessed or saw the document before the customer’s signature was affixed to it.</li><li>4. If the document pertained to a transaction, whether the transaction was authorized.</li><li>5. Whether the customer re-signed the document or otherwise approved the signature after the fact.</li><li>6. Whether the respondent’s misconduct assisted a customer’s or third-party’s wrongdoing.</li></ol> | <p>Fine of \$5,000 to \$40,000.</p> | <p>Where mitigating factors predominate—including, for example, signatures and falsifications in connection with authorized transactions and instances when the customer re-signed the document or otherwise approved the signature after the fact—consider suspending the respondent in all capacities for a period of 10 business days to six months.</p> <p>Where some aggravating factors exist, consider suspending the respondent for a period of two months to two years.</p> <p>Where aggravating factors predominate, particularly in cases resulting in customer harm, consider suspending the respondent for a period of six months to two years or barring the respondent.</p> |

## VII. Qualification and Membership

- Cheating, Including Using an Impostor, or Violating the Rules of Conduct in Qualification Examinations or in the Firm Element or Regulatory Element of Continuing Education
- Disqualified Person Associating with Firm Prior to Approval
- Registration Violations
- Unapproved Changes in Ownership, Control, or Business Operations

# Cheating, Including Using an Impostor, or Violating the Rules of Conduct in Qualification Examinations or in the Firm Element or Regulatory Element of Continuing Education

FINRA Rule 2010 and FINRA Rule 1210 Supp. Material .05<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Monetary Sanction                                                                                                                                                                                                                                                                                                    | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether respondent’s misconduct occurred during a qualification examination or while completing continuing education.</li><li>The nature of the unauthorized materials or devices that the respondent possessed or used.</li><li>In Firm Element or Regulatory Element Continuing Education matters, whether the respondent recruited others to complete requirements and the degree of pressure exerted.</li></ol> | <p><i>Qualification Examination</i></p> <p>For cheating or using an impostor, no fine recommended because a bar is standard.</p> <p>For unauthorized possession that does not rise to the level of cheating, fine of \$5,000 to \$40,000.</p> <p><i>Continuing Education</i></p> <p>Fine of \$2,500 to \$20,000.</p> | <p><i>Qualification Examination</i></p> <p>A bar is standard for cheating or using an impostor on a qualification exam. For unauthorized possession or violations of the rules of conduct that do not rise to the level of cheating, consider a lesser sanction, such as suspending the respondent in any or all capacities for up to two years and requiring the respondent to requalify.</p> <p><i>Continuing Education</i></p> <p>Consider suspending the respondent in any or all capacities for a period of one month to two years. Where aggravating factors predominate, consider barring the respondent. Additionally consider requiring respondent to complete appropriate continuing education.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-3.

# Disqualified Person Associating with Firm Prior to Approval

FINRA Rules 1210 and 2010 and Article III, Section 3 of the FINRA By-Laws<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                   | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature and extent of the disqualified person's activities and responsibilities.</li><li>2. Whether a Form MC-400 application was pending.</li><li>3. Whether disqualification resulted from banking, insurance, or securities misconduct.</li></ol> | <p>Fine of \$5,000 to \$20,000.</p> | <p><i>Supervisory Principal</i></p> <p>Where aggravating factors predominate, consider suspending the supervisory principal in any or all capacities for up to two years or barring the supervisory principal, particularly where he or she knowingly allowed a disqualified person to become associated.</p> <p><i>Disqualified Person</i></p> <p>Where aggravating factors predominate, consider a bar.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-4.



# Registration Violations

FINRA Rules 1210, 1220, and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                             | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent filed a registration application.</li><li>The nature, extent, and duration of the respondent’s responsibilities while unregistered.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> | <p>Consider suspending the respondent in any or all capacities for up to six months.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or a bar.</p> |

1. This guideline also is appropriate for violations of MSRB Rules G-2 and G-3.

# Unapproved Changes in Ownership, Control, or Business Operations

FINRA Rule 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent caused the firm to breach a material provision of the agreement.</li><li>Whether the respondent caused the firm to breach a provision of the agreement that contained a restriction that was particular to the firm.</li><li>Whether the firm had applied for, was in the process of applying for, or had been denied a waiver of a restriction at the time of the misconduct.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> | <p>Where aggravating factors exist, consider suspending the respondent in any or all capacities for up to two years.</p> <p>Where aggravating factors predominate, consider barring the respondent.</p> |

## VIII. Quality of Markets

- Best Execution
- Marking the Open or Marking the Close

# Best Execution

FINRA Rules 5310 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature of the best execution violation (<i>i.e.</i>, whether the execution was at an inferior price or was untimely).</li><li>2. For securities with limited quotations or pricing information available, whether the character of the market for the security was reasonably assessed, including an analysis of price, volatility and relative liquidity, and whether reliable sources of pricing information or potential liquidity were considered.</li><li>3. The number of affected customers and customer harm.</li></ol> | <p>Fine of \$5,000 to \$50,000.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the respondent for a period of 10 business days to two months.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for a period of two months to two years. Where aggravating factors predominate, consider barring the respondent.</p> |

1. This guideline also may be appropriate for violations of MSRB Rules G-18 and G-30.

## Marking the Open or Marking the Close

FINRA Rules 5210 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Monetary Sanction                                                                                           | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the misconduct resulted in protecting a securities position or enhancing size.</li><li>Whether the respondent received a benefit from the misconduct, including but not limited to increased valuation of inventory, avoidance of margin calls, or impact on month-end performance.</li><li>Whether the activity affected the market at a particularly sensitive time, such as on the expiration date of an option or the end of the month.</li><li>Whether the misconduct was an isolated incident involving one stock or a systemic pattern of behavior involving multiple stocks.</li></ol> | <p>Fine of \$10,000 to \$100,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for a period of one month to two years.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Strongly consider barring the respondent. Where mitigating factors predominate, consider suspending the respondent in any or all capacities for a period of six months to two years.</p> |

1. This guideline also is appropriate for violations of Sections 10(b) and 15(c)(1) of the Exchange Act, the applicable rules and regulations thereunder, and MSRB Rules G-17 and G-47.

## IX. Reporting/Provision of Information

- FOCUS Reports—Late Filing; Failing to File; and Filing False, Inaccurate, or Misleading Reports
- Forms U4/U5—Late Filing of Forms or Amendments; Failing to File Forms or Amendments; and Filing of False, Misleading or Inaccurate Forms or Amendments

# FOCUS Reports—Late Filing; Failing to File; and Filing False, Inaccurate, or Misleading Reports

FINRA Rules 4511 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Monetary Sanction                                                                                                                                                                    | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The number of days late the respondent filed reports.</li><li>2. Whether the respondent filed late to delay reporting a recordkeeping, operational, or financial deficiency.</li><li>3. Whether the respondent included inaccurate information in the FOCUS report, the nature of the inaccurate information, and whether the respondent was aware at the time that the information was inaccurate.</li></ol> | <p><i>Late or Inaccurate Filing</i></p> <p>Fine of \$5,000 to \$20,000.</p> <p><i>Failure to File or Filing False or Misleading Reports</i></p> <p>Fine of \$10,000 to \$40,000.</p> | <p><i>Late or Inaccurate Filing</i></p> <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for up to 10 business days.</p> <p><i>Failure to File or Filing False or Misleading Reports</i></p> <p>Consider suspending the respondent in any or all capacities for up to two years.</p> |

## Forms U4/U5—Late Filing of Forms or Amendments; Failing to File Forms or Amendments; and Filing of False, Misleading, or Inaccurate Forms or Amendments

FINRA Rules 1122 and 2010 and Article V of the FINRA By-Laws<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature and significance of information at issue.</li><li>2. The number, nature, and dollar value of the disclosable events at issue.</li><li>3. Whether the omission of information or the inclusion of false information was done in an intentional effort to conceal information or in an attempt to mislead.</li><li>4. The duration of the delinquency.</li><li>5. Whether the failure to disclose or timely disclose delayed a regulatory investigation.</li><li>6. Whether a lien or judgment that was not timely disclosed has been satisfied.</li><li>7. Whether the failure resulted in a statutorily disqualified individual becoming or remaining associated with a firm.</li><li>8. Whether the respondent's misconduct resulted directly or indirectly in injury to other parties, including the investing public, and, if so, the nature and extent of the injury.</li></ol> | <p>Fine of \$5,000 to \$20,000.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to six months.</p> <p>Where aggravating factors predominate, consider a suspension in any or all capacities of up to two years or, where the respondent intended to conceal information or mislead, a bar.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-7.



## X. Sales Practices

- Arbitration Award—Failure to Honor or Failure to Honor in a Timely Manner
- Borrowing From or Lending to Customers
- Churning, Excessive Trading, or Switching
- Communications with the Public—Failure to Comply with Approval, Review, Recordkeeping, and Filing Requirements
- Communications with the Public—Failure to Comply with Content Standards
- Discretion—Exercise of Discretion Without Customer’s Written Authority
- Fraud, Misrepresentations, or Omissions of Material Fact
- Pricing—Excessive Markups/Markdowns and Excessive Commissions
- Research Analysts and Research Reports—Relationships, Information Barriers, and Potential Conflicts
- Research Analysts and Research Reports—Research Report Disclosure Requirements
- Research Analysts and Research Reports—Restrictions on Personal Trading
- Suitability—Unsuitable Recommendations
- Unauthorized Transactions and Failures to Execute Buy or Sell Orders

# Arbitration Award—Failure to Honor or Failure to Honor in a Timely Manner

FINRA Rules 10330 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Monetary Sanction                                                                                         | Suspension, Bar, or Other Sanctions <sup>2</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent has paid any portion of the arbitration award.</li><li>Whether the respondent has made a good-faith attempt to satisfy the award in whole or in part. Consider the promptness of any such good-faith effort.</li><li>Whether the respondent negotiated a settlement or payment schedule with the arbitration claimant and then failed to abide by the terms of the agreement.</li></ol> | <p>Fine of \$2,500 to \$20,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Where the respondent failed to pay the arbitration award in a timely manner, consider suspending the respondent in any or all capacities for up to 10 business days.</p> <p>Where the respondent fails to honor the arbitration award, suspend the respondent in any or all capacities until the respondent satisfies the arbitration award (by payment or fully paid settlement) plus at least an additional six weeks.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or a bar.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-35.

2. In addition, FINRA Rule 9554 indicates that FINRA also may suspend or cancel the registration of a person for failure to honor an arbitration award or settlement agreement related to an arbitration or mediation under Article V, Section 3 of the FINRA By-Laws.

## Borrowing from or Lending to Customers

FINRA Rules 3240 and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The purpose of the loan.</li><li>2. The number of loans at issue.</li><li>3. The number of customers involved in the respondent's borrowing or lending arrangements.</li><li>4. Whether the loan was documented through a loan agreement or other written instrument.</li><li>5. The dollar amount, duration, interest rate, repayment schedule, and other terms of the loan and whether they are reasonable.</li><li>6. Whether the respondent made payments in conformance with the loan agreement and has repaid, or attempted to repay, the loan.</li><li>7. The age, financial condition, and financial sophistication of the customer.</li><li>8. Whether the respondent made any misrepresentations to the customer.</li><li>9. Whether the respondent misled his or her employer member firm about the existence of the loan or otherwise concealed the activity from the firm.</li></ol> | <p>Fine of \$2,500 to \$50,000.</p> | <p>Consider suspending the respondent for a period of 10 business days to three months.</p> <p>Where aggravating factors predominate, consider a suspension of up to two years or a bar.</p> |

# Churning, Excessive Trading, or Switching

FINRA Rules 2020, 2111, and 2010 and Exchange Act Regulation Best Interest (Reg BI)<sup>1</sup>

| Principal Considerations in Determining Sanctions           | Monetary Sanction            | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                        |
|-------------------------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| See <i>Principal Considerations in Introductory Section</i> | Fine of \$5,000 to \$50,000. | <p>Suspend the respondent in any or all capacities for a period of one month to two years.</p> <p>Where aggravating factors predominate, consider a suspension of two years or a bar. Strongly consider a bar for reckless or intentional misconduct (e.g., churning).</p> |

1. This guideline also is appropriate for variable annuity and mutual fund-related violations, violations of Sections 10(b) and 15(c)(1) of the Exchange Act, the applicable rules and regulations thereunder, and violations of MSRB Rule G-17.

Communications with the Public—Failure to Comply with Approval, Review, Recordkeeping, and Filing Requirements

FINRA Rules 2210 *et seq.* and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                         | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <p>See <i>Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature and extent of failure to review or approve communications.</li><li>2. Whether the failure to review or approve communications resulted in the distribution of false or misleading communications.</li><li>3. Whether the respondent failed to file or untimely filed communications with the Advertising Regulation Department as required by the rules.</li></ol> | <p>Fine of \$5,000 to \$20,000.</p> | <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for up to two months.</p> |

1. This guideline also is appropriate for violations involving institutional communications and for violations of MSRB Rule G-21.

Communications with the Public—Failure to Comply with Content Standards

FINRA Rules 2210 *et seq.* and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                            | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature and significance of false, misleading, or omitted information.</li><li>2. Whether the violative communications with the public were circulated widely.</li><li>3. Whether the misconduct was the result of an intentional act, recklessness, or negligence.</li></ol> | <p>Fine of \$5,000 to \$40,000.</p> | <p>In cases involving negligent use of misleading communications, consider suspending the respondent in any or all capacities for a period of 10 business days to two months.</p> <p>In cases involving intentional or reckless use of misleading communications with the public, consider suspending the respondent in any or all capacities for up to 18 months.</p> <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for up to two years or barring the respondent.</p> |

1. This guideline also is appropriate for violations involving institutional communications and for violations of MSRB Rule G-21.

Discretion—Exercise of Discretion Without Customer’s Written Authority

FINRA Rules 3260(b) and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                         | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <p>See <i>Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether customer’s grant of discretion was express or implied.</li><li>Whether the firm’s policies or procedures prohibited the respondent’s discretionary trading.</li><li>Whether the firm prohibited the respondent from exercising discretion in customer accounts.</li><li>Whether the respondent’s exercise of discretion went beyond time and price discretion.</li></ol> | <p>Fine of \$2,500 to \$10,000.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to two months.</p> |

1. This guideline also is appropriate for violations of MSRB Rules G-8(a)(xi)(I) and G-17.

# Fraud, Misrepresentations, or Omissions of Material Fact

FINRA Rules 2020 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions    | Monetary Sanction                                                                                                                                             | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| See Principal Considerations in Introductory Section | <p><i>Negligent Misconduct</i></p> <p>Fine of \$5,000 to \$50,000.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Fine of \$10,000 to \$100,000.</p> | <p><i>Negligent Misconduct</i></p> <p>Suspend the respondent in any or all capacities for a period of one month to two years.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Strongly consider barring the respondent. Where mitigating factors predominate, suspend the respondent in any or all capacities for a period of six months to two years.</p> |

1. This guideline also is appropriate for violations of Sections 10(b) and 15(c)(1) of the Securities Exchange Act of 1934, Section 17(a) of the Securities Act of 1933, the applicable rules and regulations thereunder, and MSRB Rules G-17 and G-47.



Pricing—Excessive Markups/Markdowns and Excessive Commissions

FINRA Rules 2121 and 2010 and FINRA Rule 2121 Supp. Material .01 and .02<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                     | Monetary Sanction                    | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>See <i>Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether as a result of the respondent’s conduct, the firm dominated and controlled the market in the subject security or securities.</li><li>Whether respondent had discretion as to the amount of markups, markdowns, or commissions on each trade.</li><li>The number of harmed customers and the customer harm.</li></ol> | <p>Fine of \$5,000 to \$100,000.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to two months.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for a period of two months to two years. Where aggravating factors predominate, consider barring the respondent.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-30.

# Research Analysts and Research Reports—Relationships, Information Barriers, and Potential Conflicts

FINRA Rules 2241, 2242, and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                    | Monetary Sanction                                                                                                                                                                                                                  | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent’s misconduct resulted in publication of research reports that omitted material information or contained misleading information.</li><li>Whether respondent was responsible for systemic problems or widespread conflicts in the firm.</li><li>Whether respondent was registered or functioning as a principal at the firm.</li></ol> | <p><i>Negligent Misconduct</i></p> <p>Fine of \$5,000 to \$40,000.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Fine of \$10,000 to \$77,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for up to two months.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for a period of two months to two years.</p> <p>Where aggravating factors predominate, consider barring the respondent.</p> |

# Research Analysts and Research Reports—Research Report Disclosure Requirements

FINRA Rules 2241(c), 2242(c), and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Monetary Sanction                                                                                                                                                                                                                  | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature of respondent’s disclosure failures.</li><li>2. The number of respondent’s research reports in which there were disclosure failures.</li><li>3. The duration of respondent’s disclosure failures.</li><li>4. Whether respondent was registered or functioning as a principal at the firm.</li><li>5. Whether respondent had a financial interest in the issuer.</li><li>6. Whether respondent raised price targets, revenue and earnings estimates, or otherwise adjusted research to seek favor with the investment banking department or issuer.</li></ol> | <p><i>Negligent Misconduct</i></p> <p>Fine of \$5,000 to \$40,000.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Fine of \$10,000 to \$77,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for up to two months.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for a period of two months to two years.</p> <p>Where aggravating factors predominate, consider barring the respondent.</p> |

# Research Analysts and Research Reports—Restrictions on Personal Trading

FINRA Rules 2241(b)(2)(j), 2242(b)(2)(j), and 2010

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                   | Monetary Sanction                                                                                                                                                                                                                  | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>1. The nature of trading restriction violated.</li><li>2. The number of trades respondent executed in violation of trading restrictions.</li><li>3. Whether respondent was registered or functioning as a principal at the firm.</li></ol> | <p><i>Negligent Misconduct</i></p> <p>Fine of \$5,000 to \$20,000.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Fine of \$10,000 to \$77,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p><i>Negligent Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for up to two months.</p> <p><i>Intentional or Reckless Misconduct</i></p> <p>Consider suspending the respondent in any or all capacities for a period of two months to two years.</p> <p>Where aggravating factors predominate, consider barring the respondent.</p> |

Suitability—Unsuitable Recommendations

FINRA Rules 2111 and 2010

| Principal Considerations in Determining Sanctions    | Monetary Sanction            | Suspension, Bar, or Other Sanctions                                                                                                                            |
|------------------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| See Principal Considerations in Introductory Section | Fine of \$2,500 to \$40,000. | Suspend the respondent in any or all capacities for a period of 10 business days to two years. Where aggravating factors predominate, strongly consider a bar. |

# Unauthorized Transactions and Failures to Execute Buy or Sell Orders

FINRA Rule 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent reasonably misunderstood his or her authority or the terms of the customer's orders.</li><li>The number of customers affected and the magnitude of the customers' losses.</li><li>The number and dollar value of unauthorized transactions or failures to execute buy or sell orders.</li><li>Whether the respondent attempted to conceal the trading or to evade regulatory investigative efforts.</li><li>Whether the unauthorized transactions were made in furtherance of or in connection with another violation (e.g., conversion, improper use of funds, churning, etc.).</li></ol> | <p>Fine of \$5,000 to \$30,000.</p> | <p>For failures to execute orders, consider suspending the respondent in any or all capacities for a period of 10 business days to one year.</p> <p>For unauthorized transactions, consider suspending the respondent for a period of one month to two years. Where aggravating factors predominate, strongly consider barring the respondent.</p> |

1. This guideline also is appropriate for violations of MSRB Rules G-17 and G-19.

## **XI. Supervision**

- Supervision—Failure to Supervise
- Supervision—Systemic Supervisory Failures
- Supervisory Procedures—Deficient Written Supervisory Procedures

# Supervision—Failure to Supervise

FINRA Rules 3110 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the respondent ignored “red flag” warnings that should have resulted in additional supervisory scrutiny.</li><li>Whether individuals responsible for underlying misconduct attempted to conceal misconduct from the respondent.</li><li>The nature, extent, size, and character of the underlying misconduct.</li><li>The quality and degree of respondent’s implementation of the firm’s supervisory procedures and controls.</li></ol> | <p>Fine of \$5,000 to \$30,000.</p> | <p>Consider suspending the respondent in all principal capacities for up to two months.</p> <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for up to two years or barring the respondent.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-27.



# Supervision—Systemic Supervisory Failures

FINRA Rules 3110 and 2010<sup>1</sup>

Adjudicators should use this Guideline when a supervisory failure is significant and is widespread or occurs over an extended period of time. While systemic supervisory failures typically involve failures to implement or use supervisory procedures that exist, systemic supervisory failures also may involve supervisory systems that have both ineffectively designed procedures and procedures that are not implemented.

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Monetary Sanction                                                                                          | Suspension, Bar, or Other Sanctions                                                                                                                                                                                                                                                             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether the deficiencies allowed violative conduct to occur or to escape detection.</li><li>Whether the respondent failed to timely correct or address deficiencies once identified, failed to respond reasonably to prior warnings from FINRA or another regulator, or failed to respond reasonably to other “red flag” warnings.</li><li>The number and type of customers, investors, or market participants affected by the deficiencies.</li><li>The number and dollar value of the transactions not adequately supervised as a result of the deficiencies.</li><li>The nature, extent, size, character, and complexity of the activities or functions not adequately supervised as a result of the deficiencies.</li><li>The extent to which the deficiencies affected market integrity, market transparency, the accuracy of regulatory reports, or the dissemination of trade or other regulatory information.</li><li>The quality of controls and procedures available to the respondent and the degree to which the respondent implemented them.</li></ol> | <p>Fine of \$10,000 to \$50,000.</p> <p>Where aggravating factors predominate, consider a higher fine.</p> | <p>Consider suspending the respondent in any or all capacities for a period of 10 business days to six months.</p> <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for a period of six months to two years or barring the respondent.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-27.

# Supervision—Deficient Written Supervisory Procedures

FINRA Rules 3110 and 2010<sup>1</sup>

| Principal Considerations in Determining Sanctions                                                                                                                                                                                                                                                                                               | Monetary Sanction                   | Suspension, Bar, or Other Sanctions                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <p><i>See Principal Considerations in Introductory Section</i></p> <ol style="list-style-type: none"><li>Whether deficiencies allowed violative conduct to occur or to escape detection.</li><li>Whether the deficiencies made it difficult to determine the individual or individuals responsible for specific areas of supervision.</li></ol> | <p>Fine of \$5,000 to \$20,000.</p> | <p>Where aggravating factors predominate, consider suspending the respondent in any or all capacities for up to one year.</p> |

1. This guideline also is appropriate for violations of MSRB Rule G-27.

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