

Introducing FINRA for BetterInvesting

Eric Aker, Silicon Valley Chapter, BetterInvesting



**Introducing
FINRA
for
BetterInvesting**

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- FINRA Arbitrator
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FINRA and Me

- My name is Eric Aker and I am a volunteer arbitrator for FINRA
- **Financial Industry Regulatory Authority**
- FINRA has a role in protecting investors
- I signed up to volunteer in 2013
 - FINRA did background check
 - I took 3 online classes
 - Full disclosure of my relationships with all financial institutions
- I have been selected to sit on arbitration board
 - I along with 2 other arbitrators heard cases

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Overview

- Intro to FINRA, what is FINRA
- SEC oversees FINRA
- FINRA runs BrokerCheck
- BrokerCheck example
- FINRA education
- Newsletter and statistics
- File a complaint
- 2 cases that I worked on
- FINRA and BetterInvesting

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? ? ? ? ?

- If you had a problem with your broker?
- How do you select a broker?
- How do you check that he/she is honest?
- FINRA can help you avoid fraud.
- Where can you find out about trading rules?

FINRA

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SEC oversees FINRA

Securities Exchange Commission

- Largest independent US government agency
- Created after 1929 market crash to regulate stock market
- Primary purpose is to enforce laws against market manipulation.
- Only does “civil actions”
- Refers all criminal cases to US Department of Justice

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FINRA - Financial Industry Regulatory Authority

- FINRA is a not-for-profit independent entity
- It is not part of the US government
- The SEC oversees FINRA and acts as the first level of appeal for FINRA decisions
- FINRA is funded from member fees and fines*
- Oversees brokers and the financial markets
- Enforces industry regulations
- BrokerCheck
- Mediation
- Arbitration

* See details next slide

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FINRA Funding (Information added after the presentation/recording)

FEES and SERVICES

- Regulatory fees (member assessments and trading activity, etc.)
- User fees (registration fees, continuing ed, dispute resolution, corporate financing, etc.)
- Contract services (market regulation services to Nasdaq, CBOE and others)
- Financial reserves (derived from the sale of Nasdaq)
- Investment income

https://www.finra.org/sites/default/files/2020-05/2020_annual_budget_summary.pdf

FINES

Not based on FINRA revenue considerations
No minimum fine amounts
Accounted for separately
Subject to special governance procedures, restrictions and transparency

Latest report: <https://www.finra.org/about/annual-reports/report-use-2019-fine-monies>

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Qualifying Broker

- FINRA gives exams for brokers and others (many exams)
- Registers brokers and dealers
- Maintains CRD (Central Registration Depository)
- Keeps track of complaints
- Removes or suspends dealers with too many infractions

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Some of the hundreds of exams given by FINRA

- Qualification Exams
 - Security Industry Essentials® (SIE®) Exam
 - FINRA Representative-level Exams
 - Series 6 - Investment Company and Variable Contracts Products Representative Exam
 - Series 7 - General Securities Representative Exam
 - Series 14 - Compliance Officer Exam
 - Series 16 - Supervisory Analysts Exam
 - Series 22 - Direct Participation Programs Limited Representative Exam
 - Series 57 - Securities Trader Representative Exam
 - Series 79 - Investment Banking Representative Exam
 - Series 82 - Private Securities Offerings Representative Exam
 - Series 86 / 87 - Research Analyst Exam
 - Series 99 - Operations Professional Exam

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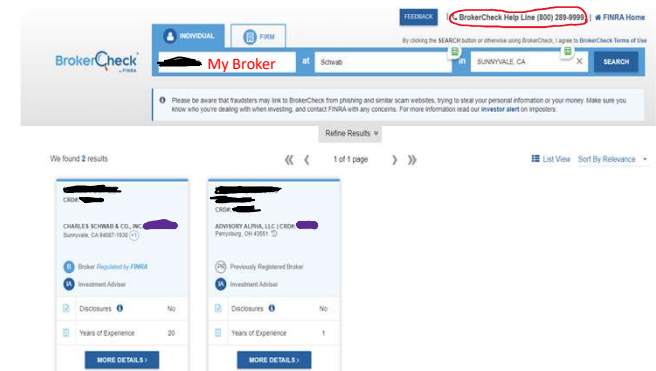
BrokerCheck Central Registration Depository (CRD)

- FINRA maintains disciplinary records on all brokers
- Records are public and anyone can verify CRD on their broker
- <https://brokercheck.finra.org/>
- Verify that there are not any (or too many) violations
- Shows how long the broker has been licensed
- Shows how many companies the broker has worked for

• I strongly encourage you to run a check on your broker

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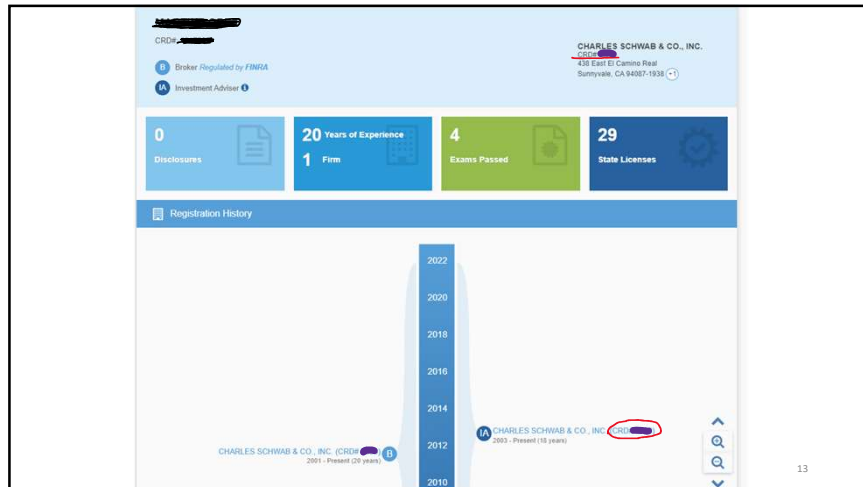
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April 5, 2022

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Broker Cases

- A lot of the cases involve brokers, often misrepresenting a product or selling an inappropriate product
- Many cases of brokers vs employers (labor disputes)
- FINRA announced recently that it has ordered Merrill Lynch to pay more than \$8.4 million in restitution to more than 3,000 customers who incurred potentially excessive sales charges. (Supervisory Failures Involving Unit Investment Trusts)

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FINRA Education

- FINRA recently announced it has launched a multi-year, multi-faceted \$30 million initiative to explore innovative ways to reach and educate investors, especially new, self-directed retail investors who conduct transactions through online accounts or using mobile apps.
- <https://www.finra.org/investors#/>
- Learn-to-Invest

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Learn to Invest

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Monthly Newsletter

March 2022

Here are recent updates and events in FINRA's Arbitration & Mediation program:

- News Release: FINRA Hires Firms to Conduct Independent Review of Arbitrator Selection Process
- COVID-19 Impact on Arbitration and Mediation Hearings
- Vaccination Requirement for In-Person Participants (Except in Florida Hearing Locations)
- Testing Requirement for In-Person Participants (Florida Hearing Locations Only)
- Safety Protocols for In-Person Hearings
- Virtual Arbitration Hearing Statistics
- Pilot Programs: Prehearing Conferences by Zoom
- Now Available: 2021 Arbitrator and Mediator Diversity Statistics
- Update to Business Mileage Rate
- FINRA's Mediation Program for Small Arbitration Claims
- Mediator List Process and Disclosure Updates
- American Bar Association 2022 Virtual Dispute Resolution Joint Spring Conference: April 25 – 29, 2022 (Virtual)
- 2022 FINRA Annual Conference: May 16 – 18, 2022 (In-Person)
- Dispute Resolution 15th Annual Arbitration Training Institute & Arbitration Practice Development Program: June 1 – 3, 2022 (In-Person)
- Regulatory Notice 21-09: FINRA Adopts Rules to Address Brokers With a Significant History of Misconduct
- Regulatory Notice 21-34: FINRA Adopts Rules to Address Firms With a Significant History of Misconduct
- Fall 2021 Neutral Workshop: [Getting Back to In-Person Hearings and More](#)
- *The Neutral Corner*: Volume 4—2021

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FINRA Statistics

Statistics are posted monthly

Restitution Ordered	\$25.2 million
Individuals Barred	246
Individuals Suspended	375
Firms Expelled	2
Firms Suspended	2
Fraud and Insider Trading Cases Referred for Prosecution	970

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Statistics 2016 - 2020


Regulatory Actions	2020	2019	2018	2017	2016
Investor Complaints Received ¹	5,472	2,954	3,136	3,002	3,070
New Disciplinary Actions Filed ²	808	854	921	1,369	1,434
Fines ³ (in millions)	\$57.0	\$39.5	\$61.0	\$64.9	\$173.8
Restitution (in millions)	\$25.2	\$27.9	\$25.5	\$66.8	\$27.9
Firms Expelled ⁴	2	6	16	20	24
Firms Suspended	2	21	23	29	26
Individuals Barred	246	348	386	492	517
Individuals Suspended	375	415	472	733	727
Advertisements and Sales Communications Reviewed	64,841	69,651	75,071	79,941	92,489

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File a complaint

- 16 page brochure
- <https://www.finra.org/sites/default/files/InvestorDocumentation/p011944.pdf>
- Arbitration (mini trial, 3 arbitrators to judge) binding on broker, not on public
- Mediation has trained people to help negotiate problems



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My FINRA Case 1

- A person had invested in a private placement real estate (apartment complex)
- Broker promised certain performance
- It performed well for 5 years, failed in year 6
- Plaintiff said the investment was “misrepresented”
- Defendant promised that he had done “due diligence”

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My FINRA Case 2

- Plaintiff had invested in auto dealership
- Defendant claimed to have investigated and done “due diligence”
- Plaintiff said it was fraud, no investigation had been done
- High commission product

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BetterInvesting and FINRA

<https://www.betterinvesting.org/meet-our-community/investor-education-partnerships>

FINRA Investor Education Foundation

BetterInvesting and the [FINRA Investor Education Foundation](#) have partnered as “fraud fighters” by enlisting all BetterInvesting Chapters to present the Outsmarting Investment Fraud program in communities across the country.

The purpose of this program is to provide investors with the tools and knowledge needed to recognize and prevent investment fraud. It also supports local community programs offered by BetterInvesting Chapters to improve investment fraud awareness and prevention.

Program Objectives:

1. Increase citizen's awareness of investment fraud susceptibility
2. Teach citizens to spot and avoid the red flags of investment fraud
3. Offer an effective program structure that enables BetterInvesting volunteers to deliver the Outsmarting Investment Fraud program successfully



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The End

Any Questions?
Or email me
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