

Putting Investors First

How FINRA Helps Safeguard Investors

2012 Consumer Issues Conference
Laramie, Wyoming



Who We Are

- FINRA is the Financial Industry Regulatory Authority
- Independent, self-regulatory organization created under federal law (Maloney Act of 1938)
- FINRA's activities are overseen by the Securities and Exchange Commission (SEC)
- Primary layer of investor protection in the federal scheme to regulate securities firms
- All U.S. broker-dealers that do business with the public must become FINRA members and subject to FINRA oversight
- Formed in 2007 as successor to National Association of Securities Dealers, Inc. (NASD) and New York Stock Exchange Member Regulation operations




What We Do

- **FINRA touches virtually every aspect of the securities business**
 - Registering and licensing industry participants
 - Writing rules
 - Examining securities firms for compliance with rules
 - Enforcing those rules and federal securities laws
 - Informing and educating investing public
 - Providing trade reporting and other industry utilities
 - Administering the largest dispute resolution forum for investors and registered firms
 - Performing market regulation under contract for exchanges




Statistical Overview

- 3,200 FINRA employees in 20 offices
- 4,400 member firms with 163,000 branch offices
- 630,000 registered representatives




Governance and Funding

- **Funded entirely by fees paid by broker-dealers**
- **Governed by Board of Governors**
 - Board must include majority of public (non-industry) Governors
 - Industry seats represent cross-section of firm sizes and business models
- **Autonomous staff subject to Board supervision**
- **Advisory industry committees**



SEC Oversight

- **SEC must find that FINRA rules and operations protect investors and prevent fraud and manipulation**
- **SEC oversight includes:**
 - Review and approval of all FINRA rules
 - Review of all FINRA disciplinary actions
 - Requiring FINRA to keep records and file reports with SEC
 - Examination and inspection of FINRA offices and operations
 - Potential to limit, suspend or revoke FINRA registration as national securities association, and to remove or censure FINRA officers



Examinations

- More than 1,000 FINRA employees in exam program
- Routine examinations
 - Conducted annually or semi-annually
 - 3,050 routine examinations in 2011
 - More risked-based approach
- Targeted examinations
 - Based on investor complaints, internal or external referrals, for cause employee terminations or arbitrations
 - 5,555 targeted examinations in 2011



Enforcement

- Formal disciplinary actions taken against firms and individuals for violations of securities laws and FINRA rules
- Can result in fines, suspensions and expulsions from industry
- Fair disciplinary process with rights of appeal to the National Adjudicatory Council (NAC), and SEC and federal appeals courts
- 2011 Actions:
 - 1,488 disciplinary cases
 - Nearly \$72 million in fines, investor restitution of \$19.4 million
 - Expelled or suspended 21 firms, barred 329 individuals from industry and suspended 475 others



Office of Fraud Detection and Market Intelligence

- Created in October 2009 in response to FINRA Board recommendation
- Heightened review of incoming allegations of fraud
- Provides a centralized internal and external point of contact for fraud issues
- Provides a real-time platform for staff consultation and cross-departmental discussion of potential fraud issues
- Manages and assists in the execution of high profile investigations
- Provides training and consultation to FINRA staff



2011 OFDMI Results/Regulatory Intelligence

- 300+ Insider Trading Surveillance referrals
- 300+ Fraud Surveillance referrals
- 100+ Whistleblower referrals



Registration and Licensing

- FINRA administers qualification examinations for securities professionals
- 44 different qualification exams to over 193,019 persons each year
- Continuing education program for registered representatives
- Central Registration Depository (CRD) program
 - Qualification, employment and disciplinary histories for nearly 17,400 current and former firms and 1.3 million current and former registered individuals
 - Used by SEC and state securities regulators



Advertising Regulation

- Advertising rules governing all broker-dealer and investment sales material
- Filings program
- Investigations and enforcement
- Reviewed 105,329 items in 2011



Market Surveillance

- Automated surveillance programs
- In 2011, FINRA captured over 2.79 billion quotes, trades and orders each day
- Regulatory services for NASDAQ, NYSE Euronext, BATS and International Securities Exchanges – approximately 80 percent of U.S. Equity Trading
- Identify violations of best execution and short sale requirements, manipulation, fraud and insider trading



Transparency Services

- Trade Reporting and Compliance Engine (TRACE): transaction data for federal and corporate bond secondary market transactions
- Alternative Display Facility (ADF): quotation and trade collection, trade comparison and information dissemination
- OTC Reporting Facility (ORF)
- Trade Report Facilities (TRF)

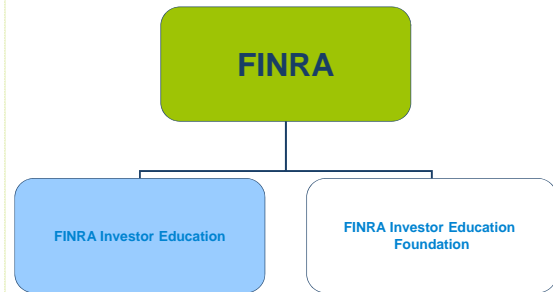


Industry Training

- Education services for firms and individuals
- Conferences, classroom and online courses, and podcasts
- Over 455 programs annually



Investor Education at FINRA



Investor Education

- Investor Publications
- Tools & Podcasts
- Special Projects
 - Job Dislocation
 - Auto 401(k)
- Integration with Regulation
- Investor Alerts



Investor Alerts

Key Sources:

- ENF / ERI / Member Reg / OFDMI
- Other intelligence gathering:
 - Scam sites
 - Media
- Investor calls or gatherings



Unique Tools and Resources

FINRA BrokerCheck

View Summary:

- Broker (Not registered with FINRA since 01/2004)
- Investment Adviser Rep (Not IA-Registered since 01/2004)

Disclosure Events

Disclosure events are certain criminal matters, regulatory actions, civil judicial proceedings, customer complaints, arbitrations, or civil litigations, employment terminations, and financial matters in which the broker has been involved.

Are there events disclosed about this broker? Yes

Get Detailed Report

FINRA BrokerCheck - Search

BrokerCheck provides information about current and former FINRA-registered and representatives through the Investment Adviser Public Disclosure website.

To start your search, indicate whether you are looking for an individual or firm:

BASIC SEARCH: enter either:

- Individual name or CID Number
- Firm name or CID Number or SEC Number

REFINE YOUR SEARCH: use one or more fields to refine your search:

- Zip Code (enter 9 digit U.S. postal code and select radius from drop-down)
- Employing Firm Name or CID Number or SEC Number (applicable only to firm)

To begin your search, choose: Individual Firm

Unique Tools: Fund Analyzer

www.finra.org/fundanalyzer

FINRA.org/investors

Sign-up for Monthly E-news

Check a Broker's History

File a Complaint

Timely Investor Alerts

Saving for College

Order Free Publications

What's New

More Resources

FINRA Foundation: Grant Making

- Smart Investing @ Your Library – American Library Association
- Financial Education in Your Community – United Way
- Arbitration Clinics

FINRA Foundation: Targeted Projects

- Military Financial Education Project
- Generation Money — Financial Literacy for Teens
- Symposia on Social Marketing for Investor Education
- National Financial Capability Study
- Investor Protection Campaign

Investor Protection Program—Outsmarting Investment Fraud

Partners:

- AARP, federal and state agencies, BBB and grassroots organizations

Elements:

- Field-tested program curriculum
- Documentary
- Partner toolkit and educational materials
- Web site
- Paid and earned media

Reach (2011):

- 8,000 investors reached through 167 events
- 468 documentary airings reaching 52 million households (45% of TV market)
- 30,000 documentary DVDs and 100,000 Fighting Fraud brochures

Learning Objectives

- Risk** — Know the risk factors for investment fraud
- Persuasion** — Know the most common persuasion tactics used in investment fraud
- Prevention** — Know the most powerful fraud prevention strategies

Outsmarting Investment Fraud 01

National Financial Capability Study

- Worked with Treasury and President's Advisory Council on Financial Capability

- Objective: To benchmark and better understand financial capability in America

- State-by-state analysis

www.usfinancialcapability.org



Where to Learn More

- FINRA Web Site:
www.finra.org

- Foundation Web Site:
www.finrafoundation.org



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