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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65663; File No. SR-FINRA-2011-035)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Partial Amendment No. 1 and Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, etc.

November 1, 2011

Overview Information:

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Partial Amendment No. 1 and Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as modified by Partial Amendment No. 1, to Adopt FINRA Rules 2210 (Communications with the Public), 2212 (Use of Investment Companies Rankings in Retail Communications), 2213 (Requirements for the Use of Bond Mutual Fund Volatility Ratings), 2214 (Requirements for the Use of Investment Analysis Tools), 2215 (Communications with the Public Regarding Security Futures), and 2216 (Communications with the Public About Collateralized Mortgage Obligations (CMOs)) in the Consolidated FINRA Rulebook.

I. Introduction

On July 14, 2011, the Financial Industry Regulatory Authority (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to adopt NASD Rules 2210 and 2211 and NASD Interpretive Materials 2210-1 and 2210-3 through 2210-8 as FINRA Rules 2210 and 2212 through 2216, and to delete paragraphs (a)(1), (i), (j) and (l) of Incorporated NYSE Rule 472, Incorporated NYSE Rule

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Supplementary Material 472.10(1), (3), (4) and (5) and 472.90, and Incorporated NYSE Rule Interpretations 472/01 and 472/03 through 472/11. The proposed rule change was published for comment in the Federal Register on August 3, 2011.³ The Commission received nine comment letters in response to the proposed rule change.⁴ On August 31, 2011, FINRA extended the time period in which the Commission must approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change, to November 1, 2011. On October 31, 2011, FINRA filed Partial Amendment No. 1 to the proposed rule change and a letter responding to comments.⁵ The Commission is publishing this notice and order to solicit comments on Partial Amendment No. 1

³ See Securities Exchange Act Release No. 64984 (July 28, 2011), 76 FR 46870 (August 3, 2011) (Notice of Filing of SR-FINRA-2011-035) (“Notice of Filing”). The comment period closed on August 24, 2011.

⁴ See letter from Oscar S. Hackett, General Counsel, BrightScope, Inc., dated August 23, 2011 (“BrightScope Letter”); letter from Alexander C. Gavis, Fidelity Investments, dated August 24, 2011 (“Fidelity Letter”); letter from David T. Bellaire, General Counsel and Director of Government Affairs, Financial Services Institute, dated August 24, 2011 (“FSI Letter”); letter from Dorothy M. Donohue, Senior Associate Counsel, Investment Company Institute, dated August 24, 2011 (“ICI Letter”); letter from Z. Jane Riley, Chief Compliance Officer, The Leaders Group, Inc., dated August 24, 2011 (“TLGI Letter”); letter from Peter J. Mougey, President, Public Investors Arbitration Bar Association, dated August 23, 2011 (“PIABA Letter”); letter from John Polanin and Clair Santaniello, Co-Chairs, Compliance and Regulatory Policy Committee 2011, Securities Industry and Financial Markets Association, dated August 25, 2011 (“SIFMA Letter”); letter from Sandra J. Burke, Principal, Vanguard, dated August 24, 2011 (“Vanguard Letter”); and letter from Yoon-Young Lee, WilmerHale, on behalf of Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., JP Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, and UBS Securities LLC, dated August 26, 2011 (“Wilmer Letter”). Comment letters are available at www.sec.gov.

⁵ See letter from Joseph P. Savage, FINRA, to Elizabeth Murphy, Secretary, SEC, dated October 31, 2011 (“Response Letter”). The text of proposed Amendment No. 1 and FINRA’s Response Letter are available on FINRA’s website at <http://www.finra.org>, at the principal office of FINRA and at the Commission’s Public Reference Room. FINRA’s Response Letter is also available on the Commission’s website at <http://www.sec.gov>.

to the proposed rule change from interested persons and to institute proceedings pursuant to Section 19(b)(2)(B) of the Act to determine whether to approve or disapprove the proposed rule change, as modified by Partial Amendment No. 1.

Institution of these proceedings, however, does not indicate that the Commission has reached any conclusions with respect to the proposed rule change, nor does it mean that the Commission will ultimately disapprove the proposed rule change. Rather, as discussed below, the Commission seeks additional input from interested parties on the issues presented by the proposed rule change, as modified by Partial Amendment No. 1, and on FINRA's Response Letter.

II. Description of the Proposed Rule Change and Summary of Comments

As part of the process of developing a new consolidated rulebook ("Consolidated FINRA Rulebook"), FINRA is proposing to adopt NASD Rules 2210 and 2211 and NASD Interpretive Materials 2210-1 and 2210-3 through 2210-8 as FINRA Rules 2210 and 2212 through 2216 in the Consolidated FINRA Rulebook, and to delete paragraphs (a)(1), (i), (j) and (l) of Incorporated NYSE Rule 472, Incorporated NYSE Rule Supplementary Material 472.10(1), (3), (4) and (5), and 472.90, and Incorporated NYSE Rule Interpretations 472/01 and 472/03 through 472/11. The proposed rule change would renumber NASD Rules 2210 and 2211 and NASD Interpretive Materials 2210-1 and 2210-4 as FINRA Rule 2210, NASD Interpretive Material 2210-3 as FINRA Rule 2212, NASD Interpretive Material 2210-5 as FINRA Rule 2213, NASD Interpretive Material 2210-6 as FINRA Rule 2214, NASD Interpretive Material 2210-7 as FINRA Rule 2215, and NASD Interpretive Material 2210-8 as FINRA Rule 2216.

NASD Rules 2210 and 2211, and the Interpretive Materials that follow Rule 2210,

generally govern all FINRA members' communications with the public. Incorporated NYSE Rule 472 governs communications with the public of FINRA members that also are members of the New York Stock Exchange.

The proposed rule change would create a new FINRA Rule 2210 that would encompass, subject to certain changes, the provisions of current NASD Rules 2210 and 2211, NASD Interpretive Materials 2210-1 and 2210-4, and the provisions of Incorporated NYSE Rule 472 that do not pertain to research analysts and research reports. Each of the other Interpretive Materials that follow NASD Rule 2210 would receive its own FINRA rule number and would adopt the same communication categories used in FINRA Rule 2210.⁶

As discussed in the Notice of Filing, proposed FINRA Rule 2210 would replace the current six communication categories with three new categories: institutional communication, retail communication, and correspondence, and would prescribe approval, review, recordkeeping, filing and content requirements to such communications.

In general, the commenters to the Notice of Filing supported the proposal. Commenters, however, raised concerns regarding various aspects of the proposed rules, including, among others:

- the scope of the definition of the term “institutional investor”;⁷
- the circumstances in which an institutional communication could be deemed a retail communication (e.g., when a member “has reason to believe that the communication

⁶ Proposed FINRA Rule 2211 (Communications with the Public About Variable Insurance Products), which would replace NASD Interpretive Material 2210-2, is the subject of a separate proposed rule change. See Securities Exchange Act Release No. 61107 (December 3, 2009), 74 FR 65180 (December 9, 2009) (Notice of Filing File No. SR-FINRA-2009-070).

⁷ See Fidelity and SIFMA Letters, supra note 4.

- or any excerpt thereof will be forwarded or made available to any retail investor”);⁸
- the treatment of internal communications for education and training as institutional communications;⁹
 - the requirements applicable to communications prepared by research department personnel;¹⁰
 - the requirements to file with FINRA within 10 business days of first use certain retail communications (e.g., communications concerning government securities, closed-end funds and any registered security that is derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance or a foreign currency, that is not included in other filing requirements);¹¹
 - disclosure requirements applicable to communications and public appearances that contain a recommendation (e.g., the proposed category of associated persons whose financial interest would need to be disclosed);¹²
 - the treatment of public appearances generally and, in particular, postings in online interactive fora;¹³ and
 - the exclusion from the filing requirement for certain prospectuses and offering documents.

⁸ See FSI and SIFMA Letters, supra note 4.

⁹ See SIFMA, ICI, Fidelity and Vanguard Letters, supra note 4.

¹⁰ See SIFMA and Wilmer Letters, supra note 4.

¹¹ See SIFMA, TLGI and SIFMA Letters, supra note 4.

¹² See Fidelity, FSI, ICI, PIABA, SIFMA and Wilmer Letters, supra note 4.

¹³ See Fidelity, ICI and SIFMA Letters, supra note 4.

FINRA responded to these and other comments in its Response Letter and filed Partial Amendment 1.¹⁴

III. Description of Partial Amendment No. 1

FINRA's proposed changes in response to comments, as set forth in Partial Amendment No. 1 are summarized below.

First, FINRA is proposing to amend proposed FINRA Rule 2210 to clarify that a member is required to have a principal approve a retail communication that is excepted from the definition of "research report" pursuant to NASD Rule 2711(a)(9)(A) if the retail communication makes any financial or investment recommendation.

Second, FINRA is proposing to eliminate the filing requirement for retail communications concerning government securities (as defined by Section 3(a)(42) of the Exchange Act).

Third, FINRA is proposing to amend proposed FINRA Rule 2210 to clarify that a comparative illustration of the mathematical principles of tax-deferred versus taxable compounding must disclose that ordinary income tax rates will apply to withdrawals from a tax-deferred investment.

Fourth, FINRA is proposing to modify the disclosure requirements for retail communications and public appearances that include a recommendation of securities. FINRA proposes to change the category of associated persons whose financial interest would have to be disclosed pursuant to paragraph (d)(7)(A)(ii) of proposed FINRA Rule 2210. As revised, a retail communication that includes a securities recommendation would have to disclose if the member

¹⁴ See supra, note 5.

or any associated person that is directly and materially involved in the preparation of the content of the communication has a financial interest in any of the securities of the issuer whose securities are recommended, and the nature of the financial interest, unless the extent of the financial interest is nominal.

FINRA proposes a technical modification to the language in paragraph (d)(7)(A)(iii) of proposed FINRA Rule 2210 in order to make it consistent with the language in paragraph (d)(7)(A)(ii) of proposed FINRA Rule 2210, by changing the reference to “any securities of the recommended issuer” to “any of the securities of the issuer whose securities are recommended.” FINRA proposes to modify proposed paragraph 2210(d)(7)(D) to clarify that the disclosure requirements in proposed paragraph (d)(7)(A) and the provisions regarding past specific recommendations in proposed paragraph (d)(7)(C) do not apply to a communication that recommends only registered investment companies or variable insurance products; however, such communications still must have a reasonable basis for the recommendation. In addition, pursuant to proposed paragraph (d)(7)(B), a member must provide, or offer to furnish upon request, available investment information supporting the recommendation in such communications.

FINRA also proposes to revise the disclosure standards for public appearances that include securities recommendations. As revised, the requirements under proposed FINRA Rule 2210(f) would apply only to public appearances by associated persons (since members do not engage in public appearances except through their associated persons). An associated person making a public appearance would have to disclose, if applicable, his or her own financial interest in any of the securities of the issuer whose securities are recommended and the nature of

the financial interest, unless the extent of the financial interest is nominal. The associated person also would have to disclose any actual, material conflict of interest of the associated person or member of which the associated person knows or has reason to know at the time of the public appearance. These disclosure requirements would not apply to any public appearance by a research analyst for purposes of NASD Rule 2711 that includes all of the applicable disclosures required by that Rule. The disclosure requirements also would not apply to a recommendation of investment company securities or variable insurance products; provided, however, that the associated person must have a reasonable basis for the recommendation.

Fifth, FINRA is proposing to add paragraph (d)(8) to proposed FINRA Rule 2210, which would exclude from the content standards of proposed paragraph (d): prospectuses, preliminary prospectuses, fund profiles and similar documents that have been filed with the SEC. FINRA also proposes to clarify that the content standards of paragraph (d) of proposed FINRA Rule 2210 do apply to an investment company prospectus published pursuant to Securities Act Rule 482 and a free writing prospectus that has been filed with the SEC pursuant to Securities Act Rule 433(d)(1)(ii).

IV. Proceedings to Determine Whether to Approve or Disapprove SR-FINRA-2011-035 and Grounds for Disapproval under Consideration

In view of the issues raised by the proposal, the Commission has determined to institute proceedings pursuant to Section 19(b)(2) of the Act to determine whether to approve or disapprove FINRA's proposed rule change.¹⁵ Institution of such proceedings appears

¹⁵ 15 U.S.C. 78s(b)(2). Section 19(b)(2)(B) of the Act provides that proceedings to determine whether to disapprove a proposed rule change must be concluded within 180 days of the date of publication of notice of the filing of the proposed rule change. The time for

appropriate at this time in view of the legal and policy issues raised by the proposal. As noted above, institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, the Commission seeks and encourages interested persons to comment on the proposed rule change and provide the Commission with arguments to support the Commission's analysis as to whether to approve or disapprove the proposal.

The Commission is asking that commenters address the changes that FINRA proposes in Partial Amendment No. 1, the comments received on the Notice of Filing, FINRA's Response Letter, in addition to any other comments they may wish to submit about the proposed rule change. The Commission requests comment, in particular, on the following aspects of the proposal, as modified by Partial Amendment No. 1:

- (1) the scope of the definition of "institutional investor" for purposes of these rules;
- (2) the "reason to believe" standard under Proposed Rule 2210(a)(4)(F), which provides that "no member may treat a communication as having been distributed to an institutional investor if the member has reason to believe that the communication or any excerpt thereof will be forwarded or made available to any retail investor;"
- (3) the requirements applicable to internal communications, public appearances and postings in online interactive fora;
- (4) the requirements applicable to communications prepared by research department personnel;

conclusion of the proceedings may be extended for up to an additional 60 days if the Commission finds good cause for such extension and publishes its reasons for so finding or if the self-regulatory organization consents to the extension.

(5) the scope of the category of associated persons whose financial interests would have to be disclosed in a retail communication that includes a recommendation of securities; and

(6) the scope of the proposed exclusion from the content standards as set forth in proposed paragraph 2210(d)(8).

Pursuant to Section 19(b)(2)(B) of the Act,¹⁶ the Commission is providing notice of the grounds for disapproval under consideration. In particular, Section 15A(b)(6) of the Act¹⁷ requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

The Commission believes FINRA's proposal raises questions as to whether it is consistent with the requirements of Section 15A(b)(6) of the Act, including whether FINRA's proposal, as amended, would prevent fraudulent and manipulative acts, promote just and equitable principles of trade, and protect investors and the public interest.

V. Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any others they may have identified with the proposal. In particular, the Commission invites the written views of interested persons concerning whether the proposed rule change, as modified by Partial Amendment No. 1, is inconsistent with Section 15A(b)(6) or any other provision of the Act, or the rules and regulations thereunder.

¹⁶ 15 U.S.C. 78s(b)(2)(B).

¹⁷ 15 U.S.C. 78o-3(b)(6).

Although there do not appear to be any issues relevant to approval or disapproval which would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4, any request for an opportunity to make an oral presentation.¹⁸

Interested persons are invited to submit written data, views, and arguments by [insert date 30 days from publication in the Federal Register] concerning Partial Amendment No. 1 and regarding whether the proposed rule change, as modified by Partial Amendment No. 1, should be approved or disapproved. Any person who wishes to file a rebuttal to any other person's submission must file that rebuttal by [insert date 45 days from publication in the Federal Register]. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2011-035 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2011-035. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all

¹⁸ Section 19(b)(2) of the Act, as amended by the Securities Acts Amendments of 1975, Pub. L. 94-29, 89 Stat. 97 (1975), grants the Commission flexibility to determine what type of proceeding - either oral or notice and opportunity for written comments - is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities Acts Amendments of 1975, Report of the Senate Committee on Banking, Housing and Urban Affairs to Accompany S. 249, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make publicly available. All submissions should refer to File Number SR-FINRA-2011-035 and should be submitted on or before [insert date 30 days from publication in the Federal Register]. Rebuttal comments should be submitted by [insert 45 days from date of publication the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁹

Kevin M. O'Neill
Deputy Secretary

¹⁹ 17 CFR 200.30-3(a)(12); 17 CFR 200.30-3(a)(57).

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