

# Disclosure Video Series

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# Disclosure Video Series

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Terminations and Internal Reviews

August 17, 2023

# Agenda

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- 03 | Internal Review Question & DRP
- 04 | Termination Questions & DRP
- 05 | Questions

# Regulatory Notice 10-39 – Form U5

## Regulatory Notice

10-39

### Form U5

**Obligation to Provide Timely, Complete and Accurate Information on Form U5**

#### Executive Summary

This *Notice* reminds firms of their obligation to provide timely, complete and accurate information on Form U5 (Uniform Termination Notice for Securities Industry Registration).<sup>1</sup>

September 2010

#### Notice Type

- Guidance

#### Suggested Routing

- Compliance
- Legal
- Operations

# Regulatory Notice 10-39 – Form U5

## Some reminders:

1. “A firm may not parse through the questions in a manner that would allow the firm to avoid responding affirmatively to a question.”
2. “A firm must provide sufficient detail when responding to Form U5 questions such that a reasonable person may understand the circumstances that triggered the affirmative response.”
3. “A firm should err on the side of interpreting the term “investment-related” in an expansive manner in line with the scope of the term when reporting information on Form U5.”

# Form U5/U4 Parallel Disclosure Questions

## Investigation

7A = 14G(1)/(2)

## Regulatory Action

7D = 14C/14D/14E

## Criminal (Individual)

7C(1) = 14A(1)(a)

7C(2) = 14A(1)(b)

7C(3) = 14B(1)(a)

7C(4) = 14B(1)(b)

## Customer Complaint

7E = 14I

## Termination

7F = 14J

# Termination Explanation Inquiries

Form U5 Termination Explanations are reviewed by Disclosure Review Analysts and Directors to determine if a firm has missed disclosing a reportable termination event.

After review, a firm may receive one of two disclosure letters:

1. 'Disclosure Required' Letter
2. 'Clarification Required' Letter

# Termination Explanation Inquiries

## 1. 'Disclosure Required' Letter

Sent Date		
Sent By		
First Viewed		
Viewed By		
First Downloaded		
Downloaded By		
Resolved Date		
Resolved By		
Letter Status	Resolved	
Letter Type	Inquiry	
Occurrence ID		
Disclosure Type		
Sent To	Resolve	Firm
	Y	
Resolution Reason:	Correspondence Received - Request Satisfied	
Resolution Details:		
Subject	U5 RECEIVED W/INSUFFICIENT DETAIL OF REASON FOR TERMINATION, DISCLOSURE WILL BE REQUIRED.*** TIMELY RESPONSE REQUIRED ***	
Reason Sent	Disclosure Required	
Alert: Inactive DR May Apply:	No	
Details	AMEND DISCLOSURE QUESTIONS WITH "YES" TO 7F AND PROVIDE COMPLETE DETAILS OF THE DISCLOSURE EVENT ON TERMINATION DRP.	
Additional Information	N/A	



# Termination Explanation Inquiries

## 2. 'Clarification Required' Letter

Sent Date		
Sent By		
First Viewed		
Viewed By		
First Downloaded		
Downloaded By		
Resolved Date		
Resolved By		
Letter Status	Resolved	
Letter Type	Inquiry	
Occurrence ID		
Disclosure Type		
Sent To	Resolve	Firm
	Y	
Resolution Reason:	Disclosure Received	
Resolution Details:		
Subject	U5 RECEIVED W/INSUFFICIENT DETAIL OF REASON FOR TERMINATION. ***TIMELY RESPONSE REQUIRED***	
Reason Sent	Filing Needed	
Alert: Inactive DR May Apply:	No	
Details	CLARIFY REASON FOR TERMINATION ON AMENDED U5 AND CONTACT DISCLOSURE REVIEW (HAKIMAH GIZABI) BY CALLING THE GATEWAY CALL CENTER AT 301-590-6500 ONCE COMPLETE.	
Additional Information	AMEND DISCLOSURE QUESTIONS WITH "YES" TO APPROPRIATE 7F QUESTION AND PROVIDE COMPLETE DETAILS OF THE DISCLOSURE EVENT ON TERMINATION DRP OR PROVIDE CORRESPONDENCE IN LIEU OF DISCLOSURE IF THE MATTER IS NOT REPORTABLE. CORRESPONDENCE MAY BE SENT TO DISCLOSUREREVIEWDOCUMENTS@FINRA.ORG.	

# Termination Explanation Inquiries

To respond to a Disclosure Letter regarding a Termination Explanation, firms have three options:

1. Submit an amended U5 with an updated Termination Explanation AND call Disclosure Review to resolve the letter.
2. Submit an amended U5 with an appropriate Disclosure Reporting Page (DRP).
3. Submit correspondence to Disclosure Review that memorializes why the termination is not reportable.

# Termination Explanation Inquiries

Form U5 Termination Explanations are currently reviewed *independently* by two groups at FINRA:

1. Disclosure Review, part of Credentialing, Registration, Education & Disclosure (CRED), reviews for reportability.
2. Initial Review Group, part of National Cause and Financial Crimes Detection Programs (NCFC), reviews for investigation(s) and/or regulatory action(s).

Firms may receive inquiries from either or both departments and should respond to each separately.

# Disclosure Question 7B – Internal Review

7B. Currently is, or at termination was, the individual under internal review for fraud or wrongful taking of property, or violating *investment-related* statutes, regulations, rules or industry standards of conduct?

Question: What are “industry standards of conduct”?

Answer:

“Industry standards of conduct” is a broad term that generally means accepted requirements followed by the members of the financial services industry. Interacting with compliance personnel from other firms at industry conferences and events can help firms identify working standards and best practices.

# Disclosure Question 7B – Internal Review

Key considerations for reportability:

- “Internal Review” is not defined in FINRA’s U5 Explanation of Terms; firms should be guided by the specific wording of Question 7B and the Form U5 Instructions, Page 6.
- “Fraud” and “wrongful taking of property” are not limited to the securities industry or investment-related activity.
- An Internal Review may be filed after an individual was terminated based on activity that occurred while the individual was employed by or associated with a firm.

# Internal Review DRP



# Disclosure Question 7F / 14J – Termination

7F. Did the individual voluntarily resign from your firm, or was the individual discharged or permitted to resign from your firm, after allegations were made that accused the individual of:

1. violating *investment-related* statutes, regulations, rules or industry standards of conduct?
2. fraud or the wrongful taking of property?
3. failure to supervise in connection with *investment-related* statutes, regulations, rules or industry standards of conduct?

14J. Have you ever voluntarily resigned ...

# Disclosure Question 7F / 14J – Termination

Key considerations for reportability:

- Disclosure questions are expansive and not limited to previous U5/U4 DRPs.
- Lack of reporting by one firm does not negate another firm's obligation to disclose an event on Form U5 or U4.
- 7F(2)/14J(2) are not limited to investment-related allegations.

**REMINDER:** The Termination Explanation is NOT an acceptable alternative to a Termination DRP.



# Termination DRP





For questions regarding specific disclosure reporting issues,  
Call **301-869-6699**, **Option 4** for Disclosure Review