

Client Alert

Current Issues Relevant to Our Clients

May 27, 2015

FINRA Requests Comment on Proposed Amendments to Rules Governing Communications with the Public

The Financial Industry Regulatory Authority (“FINRA”) recently released a Regulatory Notice in which it proposed changes to certain aspects of the FINRA rules governing member firms’ communications with the public. The proposed amendments would revise certain filing requirements of FINRA Rules 2210 (Communications with the Public), 2214 (Requirements for the Use of Investment Analysis Tools) and 2213 (Requirements for the Use of Bond Mutual Fund Volatility Ratings). FINRA is proposing these amendments to better align the investor protection benefits and economic impacts of its filing requirements. It is expected that these rule changes, if adopted, would affect the current filing practices of 80 to 90 percent of the firms that file retail communications with FINRA. This Client Alert is a summary of the proposed changes, and a copy of Regulatory Notice is available [here](#).

New Firm Communications

Under existing FINRA rules, new FINRA member firms are generally required to file with FINRA retail communications at least ten business days prior to use for the first year of member firms’ membership. FINRA has acknowledged that the primary method for communicating with retail customers is through member firms’ websites and accordingly proposes to narrow the new firm filing requirements by requiring new firms to file only their websites and material changes to their websites within ten days of first use for the first year of member firms’ membership.

Investment Company Shareholder Reports

Under existing FINRA rules, member firms are required to file the manager’s discussion of fund performance portion of a registered investment company’s shareholder report if the report is distributed or made available to prospective investors. FINRA proposes to eliminate this filing requirement for manager’s discussions of fund performance that are included in shareholder reports that have been filed with the Securities and Exchange Commission.

Backup Material for Investment Company Performance Rankings and Comparisons

Firms that file with FINRA a retail communication for a registered investment company that contains a fund performance ranking or performance comparison are

currently required to include a copy of the ranking or comparison used in the retail communication. FINRA is now proposing to eliminate this filing requirement and instead require firms to maintain a back-up of these materials as part of their records.

Generic Investment Company Communications

Firms are currently required to file with FINRA within ten business days of first use retail communications “concerning” registered investment companies. FINRA proposes to exclude from the filing requirements generic investment company retail communications that do not promote a particular fund or fund family (e.g. a communication that describes different mutual fund types and features that does not discuss the benefits of a specific fund or fund family).

Investment Analysis Tools

Firms are currently required to file templates of written reports produced by or retail communications concerning “investment analysis tools” (i.e. interactive tools that produce simulations and statistical analyses based on hypothetical investment decisions) within ten days of first use if offering the investment analysis tool publicly. FINRA also requires access to any such tool. In light of the investor protections provided by FINRA access to such tool under existing provisions and other content standards, FINRA proposes to eliminate the filing requirements related to investment analysis tools.

Expansion of Filing Exclusion for Templates

Under existing FINRA rules, member firms are not required to file retail communications that are based on previously filed communications and updated only with statistical or other non-narrative information. FINRA proposes to expand this exclusion to allow firms to include updated non-predicative narrative descriptions of market events during the period covered by the communication and factual descriptions of portfolio changes without having to refile the template.

Bond Mutual Fund Volatility Ratings

Member firms are currently required to file retail communications that include bond mutual fund volatility ratings at least ten days prior to first use and withhold such communications from publication or circulation until any changes specified by FINRA have been made. FINRA proposes to permit firms to use such communications provided they are filed within ten days of first use and eliminate the requirement that such communications be accompanied or preceded by the bond fund's prospectus.

Submitting Comments

FINRA is requesting comments on the proposals. A list of particular questions is included in the Regulatory Notice linked above. You may submit comments to FINRA by mailing a hard copy to the address shown in the release or by sending an e-mail to pubcom@finra.org. Comments must be received by July 2, 2015.

For More Information

To discuss any topic covered in this Client Alert, please contact a member of the Investment Management Group or visit us online at chapman.com.

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