

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-89732; File No. SR-FINRA-2020-026)

September 1, 2020

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Temporarily Adopt (1) Supplementary Material .12 (Temporary Extension of the Limited Period for Registered Persons to Function as Principals) under FINRA Rule 1210 and (2) Supplementary Material .07 (Temporary Extension of the Limited Period for Persons to Function as Operations Professionals) under FINRA Rule 1220

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 28, 2020, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to adopt: (1) temporary Supplementary Material .12 (Temporary Extension of the Limited Period for Registered Persons to Function as Principals) under FINRA Rule 1210 (Registration Requirements); and (2) temporary Supplementary Material .07 (Temporary Extension of the Limited Period for Persons to Function as Operations Professionals) under FINRA Rule 1220 (Registration Categories). The proposed rule change would extend the 120-day period that certain individuals can function as a principal or

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

Operations Professional without having successfully passed an appropriate qualification examination through December 31, 2020.<sup>3</sup>

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The COVID-19 pandemic is an unpredictable, exogenous event that has resulted in unavoidable disruptions to the securities industry and impacted member firms, regulators, investors and other stakeholders. In response to COVID-19, earlier this year FINRA began providing temporary relief to member firms from FINRA rules and requirements via frequently

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<sup>3</sup> If FINRA seeks to provide additional temporary relief from the rule requirements identified in this proposed rule change beyond December 31, 2020, FINRA will submit a separate rule filing to further extend the temporary extension of time.

asked questions (“FAQs”) on its website.<sup>4</sup> Two of these FAQs<sup>5</sup> provide temporary relief to address disruptions to the administration of FINRA qualification examinations caused by the pandemic that have significantly limited the ability of individuals to sit for these examinations due to Prometric test center capacity issues.<sup>6</sup>

FINRA published the first FAQ on March 20, 2020, providing that individuals whom were designated to function as principals under FINRA Rule 1210.04 prior to February 2, 2020, would be given until May 31, 2020, to pass the appropriate principal qualification examination.<sup>7</sup> On May 19, 2020, FINRA extended the relief to pass the appropriate examination until June 30, 2020. Most recently, on June 29, 2020, FINRA again extended the temporary relief providing that individuals who were designated to function as principals under FINRA Rule 1210.04 prior to May 4, 2020, would be given until August 31, 2020, to pass the appropriate principal qualification examination.<sup>8</sup>

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<sup>4</sup> See Frequently Asked Questions Related to Regulatory Relief Due to the Coronavirus Pandemic, available at <https://www.finra.org/rules-guidance/key-topics/covid-19/faq>.

<sup>5</sup> See <https://www.finra.org/rules-guidance/key-topics/covid-19/faq#qe>.

<sup>6</sup> At the outset of the COVID-19 pandemic, all FINRA qualification examinations were administered at test centers operated by Prometric. Based on the health and welfare concerns resulting from COVID-19, in March Prometric closed all of its test centers in the United States and Canada and began to slowly reopen some of them at limited capacity in May. At this time, not all of these Prometric test centers have reopened at full capacity.

<sup>7</sup> FINRA Rule 1210.04 (Requirements for Registered Persons Functioning as Principals for a Limited Period) allows a member firm to designate certain individuals to function in a principal capacity for 120 calendar days before having to pass an appropriate principal qualification examination.

<sup>8</sup> See supra note 5.

FINRA published the second FAQ on May 15, 2020, providing that individuals whom were designated to function as Operations Professionals under FINRA Rule 1220(b)(3)(B) prior to February 2, 2020, would be given until June 30, 2020, to pass the applicable qualification examination.<sup>9</sup> On June 29, 2020, FINRA extended the temporary relief providing that individuals who were designated to function as Operations Professionals under FINRA Rule 1220(b)(3)(B) prior to May 4, 2020, would be given until August 31, 2020, to pass the appropriate qualification examination.<sup>10</sup>

FINRA continues to closely monitor the impact of the COVID-19 pandemic on member firms, investors, and other stakeholders. One of the impacts of COVID-19 continues to be serious interruptions in the administration of FINRA qualification examinations at Prometric test centers and the limited ability of individuals to sit for the examinations.<sup>11</sup> Although Prometric has begun reopening test centers, Prometric's safety practices mean that currently not all test centers are open, some of the open test centers are at limited capacity, and some open test centers are delivering only certain examinations that have been deemed essential by the local government.<sup>12</sup> Furthermore, Prometric has had to close some reopened test centers due to incidents of COVID-19 cases. The initial nationwide closure in March along with the inability to

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<sup>9</sup> Pursuant to FINRA Rule 1220(b)(3)(B) (Qualifications), a person registering as an Operations Professional may function in that capacity for 120 days before having to pass an applicable qualification examination.

<sup>10</sup> See supra note 5.

<sup>11</sup> Information about the continued impact of COVID-19 on FINRA-administered examinations is available at <https://www.finra.org/rules-guidance/key-topics/covid-19/exams>.

<sup>12</sup> Information from Prometric about its safety practices and the impact of COVID-19 on its operations is available at <https://www.prometric.com/corona-virus-update>. See also supra note 11.

fully reopen all Prometric test centers due to COVID-19 have led to a significant backlog of individuals who are waiting to sit for FINRA examinations.<sup>13</sup>

In addition, firms are continuing to experience operational challenges with much of their personnel working from home due to shelter-in-place orders, restrictions on businesses and social activity imposed in various states, and adherence to other social distancing guidelines consistent with the recommendations of public health officials.<sup>14</sup> As a result, firms continue to face potentially significant disruptions to their normal business operations that may include a limitation of in-person activities and staff absenteeism as a result of the health and welfare concerns stemming from COVID-19. Such potential disruptions may be further exacerbated and may even affect client services if firms cannot continue to keep principal or Operations Professional positions filled as they may have difficulty finding other qualified individuals to transition into these roles or may need to reallocate employee time and resources away from other critical responsibilities at the firm.

These ongoing, extenuating circumstances make it impracticable for member firms to ensure that the individuals whom they have designated to function in a principal or Operations Professional capacity, as set forth in FINRA Rules 1210.04 and 1220(b)(3)(B), are able to successfully sit for and pass an appropriate qualification examination within the 120-calendar day period required under the rules, or to find other qualified staff to fill these positions. The ongoing circumstances also require individuals to be exposed to the health risks associated with

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<sup>13</sup> Although an online test delivery service has been launched to help address the backlog, the General Securities Principal Exam (Series 24) and the Operations Professional Exam (Series 99) are not available online. See supra note 11.

<sup>14</sup> See, e.g., Centers for Disease Control and Prevention, How to Protect Yourself & Others, <https://www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/prevention.html>.

taking an in-person examination, because the General Securities Principal and Operations Professional examinations are not available online. Therefore, FINRA is proposing to continue the temporary relief provided through the FAQs by adopting Rules 1210.12 and 1220.07 to extend the 120-day period during which an individual can function as a principal or Operations Professional before having to pass an applicable qualification examination until December 31, 2020.<sup>15</sup> The proposed rule change would apply only to those individuals who were designated to function as a principal or Operations Professional prior to September 3, 2020. Any individuals designated to function as a principal or Operations Professional on or after September 3, 2020, would need to successfully pass an appropriate qualification examination within 120 days.<sup>16</sup>

FINRA believes that this proposed continued extension of time is tailored to address the needs and constraints on a firm's operations during the COVID-19 pandemic, without significantly compromising critical investor protection. The proposed extension of time will help to minimize the impact of COVID-19 on firms by providing continued flexibility so that firms can ensure that principal and Operations Professional positions remain filled. The potential risks from the proposed extension of the 120-day period are mitigated by the firm's continued requirement to supervise the activities of these designated individuals and ensure compliance with federal securities laws and regulations, as well as FINRA rules.

FINRA has filed the proposed rule change for immediate effectiveness and has requested that the SEC waive the requirement that the proposed rule change not become operative for 30 days after the date of the filing, so FINRA can implement the proposed rule change immediately.

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<sup>15</sup> See supra note 3.

<sup>16</sup> FINRA notes that the proposed rule change would impact members that have elected to be treated as capital acquisition brokers ("CABs"), given that the CAB rule set incorporates the impacted FINRA rules by reference.

## 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>17</sup> which 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 proposed rule change is intended to minimize the impact of COVID-19 on firm operations by further extending the 120-day period certain individuals may function as a principal or Operations Professional without having successfully passed an appropriate qualification examination under FINRA Rules 1210.04 and 1220(b)(3)(B) until December 31, 2020. The proposed rule change does not relieve firms from maintaining, under the circumstances, a reasonably designed system to supervise the activities of their associated persons to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules that directly serve investor protection. In a time when faced with unique challenges resulting from the COVID-19 pandemic, FINRA believes that the proposed rule change is a sensible accommodation that will continue to afford firms the ability to ensure that critical positions are filled and client services maintained, while continuing to serve and promote the protection of investors and the public interest in this unique environment.

### B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is intended solely to provide temporary relief given the impacts of the

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<sup>17</sup> 15 U.S.C. 78o-3(b)(6).

COVID-19 pandemic crisis.<sup>18</sup> As a result of the temporary nature of the proposed relief, an abbreviated economic impact assessment is appropriate.

1. Economic Impact Assessment

a) Regulatory Objective

FINRA is proposing this temporary relief to address the public health risks and corresponding challenges during the COVID-19 pandemic. Social distancing, quarantining and other similar requirements to promote the health and safety of citizens have resulted in serious interruptions in the administration of FINRA qualification examinations at Prometric test centers and the limited ability of individuals to sit for the examinations. In recognition of these extraordinary times, the proposed rule change would temporarily extend the time that individuals can function as a principal or Operations Professional without having successfully passed an appropriate qualification examination.

b) Economic Baseline

As described above, FINRA Rules 1210.04 and 1220(b)(3)(B) allow firms to designate certain individuals to function in a principal or Operations Professional capacity for 120 calendar days before having to pass an appropriate principal qualification examination. As also described above, FINRA has provided temporary extensions to the 120-day period through FAQs, most recently in June 2020.

Currently, approximately 157,000 individuals are registered as principals and approximately 36,000 are registered as Operations Professionals. Additionally, FINRA

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<sup>18</sup> See also Regulatory Notice 20-08 (March 2020).



estimates that approximately 6,000 individuals pass the General Securities Principal (Series 24) exam each year.<sup>19</sup>

c) Economic Impact

The proposed rule change is intended solely to provide a temporary mechanism for firms to address the difficulty of ensuring that the individuals whom they have designated to function in a principal or Operations Professional capacity are able to successfully sit for and pass an appropriate qualification examination within the 120-calendar day period required under the rules while the COVID-19 pandemic continues to pose health and safety risks. The proposed rule change is necessary to temporarily rebalance the attendant benefits and costs of the obligations under FINRA Rules 1210 and 1220 in response to the impacts of the COVID-19 pandemic.

(1) Anticipated Benefits

The benefits of the proposed temporary rule change will mainly accrue to those individuals who are operating as principals or Operations Professionals without having yet passed the appropriate qualification examinations, as permitted under FINRA rules, as these individuals will have additional time to pass their qualification examinations. The additional time provided to those individuals to pass the appropriate examinations will likely prevent any disruption to their employment associated with not meeting the examination requirement. Further, neither the principal examination nor the Operations Professional (Series 99) examination are available via remote testing. Therefore, the proposed temporary rule change will also allow those individuals to avoid any health risks (and resulting costs) associated with taking an in-person examination.

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<sup>19</sup> Statistic is based on average examination volume from 2017-2019.

Firms employing principals and Operations Professionals who have not yet passed their qualifying examinations will also benefit from continuity in their business operations. If those firms were required to prevent those individuals from functioning as principals or Operations Professionals, this would likely have spillover effects on firm procedures and services. Relatedly, investors at those firms will benefit from the resulting business continuity.

(2) Anticipated Costs

As previously stated, the public health risks stemming from the COVID-19 pandemic have increased the costs associated with sitting for in-person qualification examinations. FINRA carefully considered the implications of extending the 120-calendar day period provided in FINRA Rules 1210.04 and 1220(b)(3)(B) and the potential for any downstream effects on retail investors and believes that there are potential negative spillover effects on investors if firms' processes are interrupted, as noted above. Further, FINRA believes that any risk associated with the extension of time is mitigated by the fact that the extension is temporary and by members' ongoing obligations to supervise the activities of associated persons.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time

as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>20</sup> and Rule 19b-4(f)(6)<sup>21</sup> thereunder.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of filing. However, pursuant to Rule 19b-4(f)(6)(iii), the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. FINRA has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become operative immediately upon filing. As noted above, FINRA stated that the temporary proposed rule change will help minimize the impact of the COVID-19 outbreak on FINRA member firms' operations by allowing them to keep principal and Operations Professional positions filled and minimizing disruptions to client services and other critical responsibilities. The ongoing extenuating circumstances of the COVID-19 pandemic make it impractical to ensure that individuals designated to act in these capacities are able to take and pass the appropriate qualification examination during the 120-calendar day period required under the rules. Shelter-in-place orders, quarantining, restrictions on business and social activity and adherence to other social distancing guidelines consistent with the recommendation of public officials remain in place in various states.<sup>22</sup> Further, FINRA states that Prometric test centers have experienced serious interruptions in the administration of FINRA qualification examinations, resulting in a backlog of individuals waiting to take these

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. FINRA has satisfied this requirement.

<sup>22</sup> See supra note 14.

examinations. Following a nationwide closure of all test centers earlier in the year, some test centers have re-opened, but are operating at limited capacity or are only delivering certain examinations that have been deemed essential by the local government.<sup>23</sup> FINRA has launched an online test delivery service to help address this backlog. However, the General Securities Principal (Series 24) and the Operations Professional (Series 99) Examinations are not available online. FINRA states that the temporary proposed rule change will provide needed flexibility to ensure that these positions remain filled and is tailored to address the constraints on member firms' operations during the COVID-19 pandemic without significantly compromising critical investor protection.<sup>24</sup>

The Commission also notes that the proposal provides only temporary relief from the requirement to pass certain qualification examinations in within the 120-day period in the rules. As proposed, this relief would extend the 120-day period that certain individuals can function as principals or Operations Professionals through December 31, 2020. FINRA also noted that if it requires temporary relief from the rule requirements identified in this proposal beyond December 31, 2020, it may submit a separate rule filing to extend the effectiveness of the temporary relief under these rules.<sup>25</sup> For these reasons, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest.

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<sup>23</sup> See supra notes 11 and 12. FINRA states that Prometric has also had to close some reopened test centers due to incidents of COVID-19 cases.

<sup>24</sup> FINRA states that member firms remain subject to the continued requirement to supervise the activities of these designated individuals and ensure compliance with federal securities laws and regulations, as well as FINRA rules.

<sup>25</sup> See supra note 3.

Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposal operative upon filing.<sup>26</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. 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](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2020-026 on the subject line.

##### Paper Comments

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

All submissions should refer to File Number SR-FINRA-2020-026. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

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<sup>26</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule change's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

comments more efficiently, please use only one method. The Commission will post all 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, on business days between the hours of 10:00 a.m. and 3:00 p.m., located at 100 F Street, NE, Washington, DC 20549. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2020-026 and should be submitted on or before [date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>27</sup> 17 CFR 200.30-3(a)(12).