

# Compliance Newsletter

2020, First Quarter

Because compliance is constantly changing and evolving, we prepare this newsletter to keep you apprised of the latest rulings, guidance, proposals and more from the most recent quarter.

If you would like to speak to a compliance expert on any of these topics, please contact us at [info@joot.io](mailto:info@joot.io).

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## Summary of This Quarter's Topics

### Rulings, Amendments and Guidance

- Regulators Announce Regulatory Relief Due to the COVID-19 Pandemic
- SEC Adopts Investor Disclosure Improvements for Annuities and Life Insurance Contracts
- SEC Amends Exemptions for Advisers to Rural Business Investment Companies
- CFTC Finalizes Rule Amendments for CPOs and CTAs

### Proposals

- SEC Proposes to Simplify and Improve the Exempt Offering Framework
- SEC Requests Comment on Fund Names Rule
- FINRA Requests Comment on Proposal to Enhance Continuing Education Requirements for Registered Representatives
- SEC Proposes to Modernize the Infrastructure for Market Data of NMS Stocks

### FAQs

- SEC Responds to More FAQs on Regulation Best Interest and Form CRS

### Other Announcements

- SEC and FINRA Announce 2020 Examination Priorities
- SEC Issues Cybersecurity and Resiliency Observations

# Rulings, Amendments and Guidance

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## Regulators Announce Regulatory Relief Due to the COVID-19 Pandemic

**What you need to know:** We are leading with this headline as the pandemic has had an effect on the industry as a whole. The SEC, FINRA and the CFTC have released guidance and temporary relief of several regulatory obligations. Here is a list of some of the regulatory obligations that the regulators have addressed in some way through the relief:

SEC:

- Filing deadlines/requirements for Form ADV, Form PF, Form N-CEN, Form N-PORT and Form N-23C-2
- Conducting required in-person meetings (such as Board meetings)
- Transmittal of annual and semi-annual reports and prospectuses to fund investors
- Paper filings submitted to the SEC

FINRA:

- Extension of timeframe to complete continuing education requirements, required exams and submitting fingerprint information
- Payment of annual assessments by small firms
- Temporary office locations for registered representatives
- Filing deadlines/requirements for annual reports and FOCUS reports

CFTC:

- Filing deadlines/requirements of Form CPO-PQR and pool annual reports
- Distribution of account statements to pool participants

Each regulator has created a page on its website that provides information on the guidance or temporary relief that has been issued.

For more information: [SEC Pandemic Information](#) | [FINRA Pandemic Information](#) | [CFTC Pandemic Information](#)

If you need help navigating this information or advice on how to approach or implement the relief, we are here to help you!

## SEC Adopts Investor Disclosure Improvements for Annuities and Life Insurance Contracts

**What you need to know:** The SEC has adopted a new rule that permits variable annuity and variable life insurance contracts to use a summary prospectus to provide disclosures to investors. More-detailed information about the variable annuity or variable life insurance contract will be available online, and an investor can choose to have that information delivered in paper or electronic format at no charge. This is very similar to the current summary prospectus rule that has been in place for mutual funds since 2009 and should have the same benefits of ease of access to information and better use of technology for investors.

For more information: [SEC Final Rule: Summary Prospectus for Variable Products](#)

## SEC Amends Exemptions for Advisers to Rural Business Investment Companies

**What you need to know:** The SEC has adopted amendments to certain rules in order to implement exemptions from registration for investment advisers who advise rural business investment companies ("RBICs"). The exemption is very similar to the exemptions for advisers to venture capital funds and private funds and is intended to reduce the regulatory burdens of the registration process and requirements.

For more information: [SEC Final Rule: Adviser Exemption for RBICs](#)

## CFTC Finalizes Rule Amendments for CPOs and CTAs

**What you need to know:** The CFTC adopted a number of rule amendments that are applicable to commodity pool operators ("CPOs") and commodity trading advisors ("CTAs"). By extension, the rule amendments will also affect business development companies and registered investment companies that rely on certain CFTC exemptions. The rule amendments are also applicable to family offices and certain entities who file Forms CPO-PQR and CTA-PR. If you are either registered with the CFTC or rely on exemptions, you should check out these various rule changes.

For more information: [CFTC Final Rule Amendments](#)

## SEC Proposals

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### SEC Proposes to Simplify and Improve the Exempt Offering Framework

**What you need to know:** The SEC proposed changes that would simplify and improve the exempt offering process in order to help promote capital formation and expand investment opportunities while also preserving and enhancing investor protections. The amendments address exemptions such as Regulation A, Regulation D, and Regulation Crowdfunding. For context, the current exempt offering framework has 10 exemptions or safe harbors, each with its own set of requirements. Any changes to simplify an otherwise complex process are definitely welcome.

For more information: [SEC Rule Proposal: Exempt Offerings](#)

### SEC Requests Comment on Fund Names Rule

**What you need to know:** The SEC is requesting public comment on the current restrictions to fund names that are required by Rule 35d-1 of the Investment Company Act. The rule requires a registered investment company or business development company with a name suggesting that the fund focuses on a particular type of investment (e.g., "stocks" or "bonds") to invest at least 80% of its assets accordingly. The request seeks feedback on whether the current requirements are effective and whether there are viable alternatives that the SEC should consider. We expect there will be feedback from the industry as investment strategies have evolved since the adoption of this rule in 2001 - and some funds have been very creative with the names that have been chosen.

For more information: [SEC Seeks Comment on Names Rule](#)

## FINRA Requests Comment on Proposal to Enhance Continuing Education Requirements for Registered Representatives

**What you need to know:** FINRA is seeking comment on proposals to enhance continuing education requirements for registered representatives of broker-dealers. The proposals would: change the regulatory element to provide annual training and make the content more relevant, change the firm element to expressly recognize other training requirements and improve the resources available to firms, and enable individuals who terminate their registrations the option of maintaining their qualification by completing continuing education. Making training more relevant and useful is always a good thing, and the ability for individuals to maintain their licenses could be a game changer for the industry.

For more information: [FINRA Seeks Comment on Continuing Education](#)

## SEC Proposes to Modernize the Infrastructure for Market Data of NMS Stocks

**What you need to know:** The SEC proposed changes to the infrastructure for the collection, consolidation, and dissemination of market data for exchange-listed market system ("NMS") stocks. The proposal is fairly technical in nature, but the main purpose is to expand market data for NMS stocks to increase transparency and availability of information for both retail and institutional investors.

For more information: [SEC Rule Proposal: NMS Stock Data](#)

## FAQs

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### SEC Responds to More FAQs on Regulation Best Interest and Form CRS

**What you need to know:** The SEC continued to provide responses and information to frequently asked questions regarding Regulation Best Interest and Form CRS (aka ADV Part 3). The FAQs address several topics including retail clients, recommendations, disclosure obligations and compliance obligations. As you are preparing for the June 30, 2020 deadline, make sure you review this information (and adopt written procedures for the new processes). If you haven't heard of Regulation Best Interest or Form CRS, you have some work to do! Contact us if you need assistance.

*[For Joot's technology customers, we will help you draft your Form CRS. Send an email to [info@joot.io](mailto:info@joot.io) with a request for assistance.]*

For more information: [SEC FAQ on Best Interest](#)

## Other Announcements

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### SEC and FINRA Announce 2020 Examination Priorities

**What you need to know:** The SEC's Office of Compliance Inspections and Examinations ("OCIE") and FINRA announced their 2020 examination priorities in January. These lists are released on an annual basis in order to provide the industry with insights into areas of focus for each entity's examination process. There were a few new

items on the lists, but most were on last year's lists. Investment advisers and broker-dealers should review the priorities to make sure they have written procedures and reasonable processes in place for each applicable item.

For more information: [SEC Exam Priorities](#) | [FINRA Exam Priorities](#)

## SEC Issues Cybersecurity and Resiliency Observations

**What you need to know:** OCIE released a report on its observations regarding cybersecurity and resiliency. Cybersecurity has been a hot topic for the SEC for some time now and they have released information on a regular basis since around 2014 on the topic. It also happens to be an exam priority. The report discusses observations found during the exam process of investment advisers, broker-dealers, national securities exchanges and other SEC registrants. Items covered include risk management, access rights and controls, data loss prevention, and incident response. This is a good summary of what items are expected to be in a firm's cyber program.

For more information: [OCIE Cybersecurity Observations](#)

## About Joot

Joot is a fintech company that provides web-based technology and services to registered investment advisers, broker-dealers and funds. Joot has over 40 clients around the U.S. who collectively manage over \$33 billion. Joot's clients include retail advisers, institutional managers, private fund managers and mutual fund advisers.

We hope this newsletter is informative and valuable.

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