

STA Open Call – February 6, 2018 – Call Notes¹

FINRA's 2018 Regulatory and Examination Priorities Letter

Presenter: Tom Gira, Executive Vice President, Market Regulation & Transparency, FINRA

Opening Remarks – Jim Toes, STA President & CEO

Senate Banking Hearing on Virtual Currencies – SEC Chairman Jay Clayton and CFTC Chairman Chris Giancarlo testified before a Senate Banking Committee on Virtual Currencies. The hearing is archived [here](#) and a Williams & Jensen memorandum on federal actions regarding cryptocurrencies is [here](#)

FINRA Exam Restructuring – FINRA published additional details on its representative-level qualification exam program titled; [the Security Industry Essentials \(“SIE”\)](#). Individuals can begin taking this exam beginning October 1, 2018.

STA Comment Letter on Rule 5250 – [here](#)

Open Call Summary

On January 8, 2018, FINRA published its 2018 Regulatory & Examinations Priorities Letter. The list of categories included; Fraud; Operational & Financial Risks; Sales Practice Risks; New Rules and **Market Integrity**, which was topic of the call, in particular **Manipulation; Best Execution and Options**. Mr. Gira touched on the process FINRA follows in crafting its Priorities Letter and provided an update on FINRA's surveillance programs and new Report Cards it hopes to publish in 2018.

Detailed Remarks

The process for crafting the Priorities Letter begins in September with items being identified through various channels such as FINRA's surveillance programs, FINRA's [examination findings report](#), emerging issues, and new initiatives. FINRA is constantly enhancing its surveillance program by adding new surveillance patterns and enhancing existing patterns, such as its Cross Market Auction Ramping, which looks at behavior in and around the close. These combined efforts have helped reduce the number of false-positive alerts. Adding machine-learning, or AI, continues to be a priority. FINRA is very focused on activity occurring by one firm/individual across multiple broker dealers. Regarding the options markets, FINRA continues to enhance its surveillance capabilities in detecting front-running in correlated options products and “marking the close”. **Report Cards** have been an effective way in curbing behavior detrimental to market integrity. FINRA hopes to publish several more in 2018 including: **The Auto Execution Manipulation Report Card** which will highlight and assist firms with their supervision efforts to identify instances in which a market participant uses non-bona fide orders to move the NBBO and **The Alternative Trading System Cross Manipulation Report Card** which will identify instances in which a market participant engages in potential manipulation of the NBBO, which results in the modification of a security's prevailing midpoint price on an alternative trading system crossing venue. **Best Execution:** FINRA has expanded its equity best execution surveillance program beyond “outside the inside NBBO” report to assessing price improvement. This program has not yet been fully developed. Additionally, FINRA initiated an examination sweep in Nov. 2017.

¹ This brief is meant for informational purposes only and therefore should not be considered legal advice. STA's goal is to raise awareness and encourage industry dialogue.