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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. * SR 2024 - * 019

Amendment No. (req. for Amendments *)

Filing by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>
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Rule

<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
<input checked="" type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010
Section 806(e)(1) *

Section 806(e)(2) *

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 3C(b)(2) *

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposed Rule Change to Adjust FINRA Fees to Provide Sustainable Funding for FINRA's Regulatory Mission

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Last Name *

Title *

E-mail *

Telephone * Fax

Signature

Pursuant to the requirements of the Securities Exchange of 1934, Financial Industry Regulatory Authority has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date

(Title *)

By
(Name *)

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Robert McNamee

Digitally signed by Robert McNamee
Date: 2024.11.08 17:29:25 -05'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

Form 19b-4 Information *

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FINRA-2024-019 19b-4.docx

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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FINRA-2024-019 Exhibit 1.docx

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2- Notices, Written Comments, Transcripts, Other Communications

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

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FINRA-2024-019 Exhibit 3.docx

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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FINRA-2024-019 Exhibit 5.docx

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA” or “Exchange Act”),¹ the Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to adjust FINRA fees to provide sustainable funding for FINRA’s regulatory mission.

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The filing of the proposed rule change with the SEC has been authorized by the FINRA Board of Governors and executive management pursuant to delegated authority. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA has filed the proposed rule change for immediate effectiveness.

Implementation of the proposed rule change will be phased in gradually over a five-year period beginning on January 1, 2025, with full implementation of all proposed fee changes by 2029.

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

(a) Purpose

Overview

FINRA is submitting this proposed rule change to increase the revenues that

¹ 15 U.S.C. 78s(b)(1).

FINRA, as a not-for-profit self-regulatory organization (“SRO”), relies upon to fund its regulatory mission. Over the past year, FINRA has publicly stated many times its need to file a fee change this year to increase its fees. Over the past several years, FINRA has experienced significant expense growth resulting from rising technology costs related to capital investments seeking long-term efficiency gains for both FINRA and the industry, rising cloud hosting costs, ongoing disaster recovery and cybersecurity requirements, and elevated wage inflation and essential headcount increases necessitated by the growing breadth and complexity of FINRA’s responsibilities.

To sustain FINRA’s regulatory capabilities, FINRA proposes to increase fees related to FINRA’s core regulatory functions as well as select fees related to the use of FINRA programs and services. The proposal is designed to closely align FINRA’s revenues with its costs while preserving the historical equitable allocation of fees among FINRA members. In parallel, FINRA continues to implement operational improvements to ensure FINRA’s operations are effective and efficient.

Implementation of the proposed rule change would take place over several years, with a minority of fees going into effect in 2025, most fees implemented in 2026 or later, and several fees phased in over several years between 2025 and 2029. Thus, under the proposed rule change, FINRA would aim to collect more than 90 percent of the revenue it seeks to raise in 2026 or later. FINRA is submitting the proposed rule change now to provide members with sufficient advance notice of the proposed fee changes for annual budgeting and financial planning purposes. The proposed rule change is intended to provide sustainable longer-term funding, in a manner consistent with FINRA’s public

Financial Guiding Principles (“Guiding Principles”),² to enable FINRA to continue fulfilling its regulatory mission.

FINRA’s Current Fee Structure

As a not-for-profit SRO, FINRA receives no taxpayer funding and instead relies on a mix of fees that are intended to cover the overall costs of FINRA’s operations. The majority of FINRA’s funding is derived from three regulatory fees: the Gross Income Assessment (GIA), Trading Activity Fee (TAF), and Personnel Assessment (PA). These fees, respectively, reflect one of the three critical components driving FINRA’s regulatory costs with respect to a particular member: (1) the size of the firm measured by firm revenue, (2) the firm’s trading activity, and (3) the number and role of persons registered with the firm. FINRA also employs use-based fees for specific services it provides to members and the public in support of its regulatory mission. Several use-based fees, including registration fees, qualification examination fees, and continuing education fees, among others, align with a critical component of FINRA’s regulatory costs (*i.e.*, the number and role of registered persons at a firm). As such, FINRA considers those use-based fees part of its “core” regulatory fees.

In addition, FINRA employs other use-based fees for certain services it provides to members and the public. Examples include fees associated with: reviewing public offering filings; reviewing communications with the public; and operating the FINRA Dispute Resolution Services (“DRS”) arbitration forum. As FINRA has explained

² See FINRA’s Financial Guiding Principles, https://www.finra.org/sites/default/files/finra_financial_guiding_principles_0.pdf.

previously,³ when applying use-based fees, FINRA takes into account three associated types of costs: direct costs for the program associated with the use-based fee, such as program development and operating expenses, and reinvestments and enhancements; indirect costs for the program, including supporting services necessary for the program's associated regulatory activity; and a contribution to FINRA's overall regulatory operations, which promotes its mission of investor protection.⁴ Thus, taken together, core regulatory fees and other use-based fees allow FINRA to fund its regulatory mission.⁵

FINRA has explained that numerous operations and services must be funded by general revenue sources, which include both core regulatory and other use-based fees.⁶ There are several reasons for this. For instance, it is not feasible to associate a direct affiliated revenue stream for each of FINRA's programs (e.g., examinations of members do not have an associated revenue stream). Similarly, there is no one consistent driver of costs of a particular regulatory program. Even where one cost driver may, at times, align with a particular revenue stream (e.g., as trading activity increases, certain Market Regulation costs may increase), the relationship may not hold at other times. For

³ See Securities Exchange Act Release No. 90176 (October 14, 2020), 85 FR 66592 (October 20, 2020) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2020-032).

⁴ See supra note 3.

⁵ In addition to the services FINRA provides in furtherance of its regulatory mission, FINRA also provides certain services on a contract basis to third parties. These contract service fees represent approximately 8% of FINRA's total revenues. Importantly, these revenues pay in full for the services rendered under the contracts, and FINRA's costs to perform these services are not funded with any of the regulatory revenue discussed in this filing.

⁶ See supra note 3.

example, novel trading patterns in single or multiple securities may not be associated with significant volume but may require comparatively larger efforts in terms of regulatory oversight. Likewise, periods of intense market volatility may influence regulatory costs independent of the change in trading volume.

Further, in light of FINRA's diverse membership of firms that vary greatly in size and business model, it is not feasible to develop a comprehensive pricing structure that precisely accounts for the particular costs associated with each member.⁷ Rather, FINRA's current fee structure is designed to ensure sufficient funding to meet all of its regulatory obligations in a manner that equitably allocates fees among FINRA members, notwithstanding the fluctuations in different revenue streams and cost drivers that are naturally expected to occur over time. The Commission has historically agreed that this overall cost-based pricing structure "is reasonable in that it achieves a generally equitable impact across FINRA's membership and correlates the fees assessed to the regulatory services provided by FINRA."⁸ FINRA continues to believe that this approved approach to overall pricing is the most reasonable and equitable way to provide sufficient funding to meet its regulatory obligations as a not-for-profit SRO with broad, diverse membership.

As set out in the Guiding Principles, FINRA targets break-even cash flows as a means to appropriately fund its mission of protecting investors and promoting market integrity while facilitating vibrant capital markets. Careful expense management is

⁷ See supra note 3.

⁸ See Securities Exchange Act Release No. 61042 (November 20, 2009), 74 FR 62616, 62620 (November 30, 2009) (Order Approving File No. SR-FINRA-2009-057).

another key element of the Guiding Principles. The Guiding Principles also explain the extent to which FINRA relies on its financial reserves – originally derived from the sale of Nasdaq – to help support its regulatory mission.⁹ The Guiding Principles also describe how FINRA uses fine monies – which are not included in FINRA’s operating budget – to promote compliance and improve markets.¹⁰

FINRA’s most recent comprehensive fee increase included increases to core regulatory fees from 2022 through 2024.¹¹ Looking ahead, FINRA projects that its current fees will not keep pace with its projected future expenses in light of the continued growth in the breadth and complexity of FINRA’s regulatory obligations, described in detail below. As FINRA noted recently in its 2024 Annual Budget Summary, based on the current fee structure (inclusive of the fee adjustments made from 2022 through 2024),

⁹ See supra note 2. Information about FINRA’s financial reserves is provided each year in FINRA’s published annual financial reports. See FINRA Financial Reports and Policies, available at <https://www.finra.org/about/annual-reports>. FINRA strives to maintain an appropriate level of reserves, which the FINRA Board of Governors has determined to be at least one year of expenditures.

¹⁰ While fine monies are not included in FINRA’s annual operating budget, they are included in cash flow projections. For purposes of its projections, FINRA assumed a conservative amount of fine money for future years based on historical fine money receipt. When FINRA imposes fines, the amounts are based on the facts and circumstances of the misconduct and are guided by the principles set forth in FINRA’s Sanction Guidelines that are similar in nature – fines are not based on revenue considerations, and FINRA does not establish any minimum amount of fines that must be collected for purposes of the annual operating budget. Fines collected are accounted for separately, and the use of these monies is subject to special governance procedures and restrictions on use, as set forth in our Guiding Principles. See supra note 2. In accordance with the Guiding Principles, FINRA issues a separate annual report detailing use of fine monies as approved by the FINRA Board of Governors. See, e.g., Report of Use of 2023 Fine Monies (June 14, 2024), available at <https://www.finra.org/about/annual-reports/report-use-2023-fine-monies>.

¹¹ See supra note 3.

FINRA projects it will recognize an operating loss in 2024, with a drawdown on its financial reserves of approximately \$100 million.¹² FINRA estimates that, absent any action, its reserve balance will fall below its Board-approved target level of one-year of operating costs by 2027. As described in more detail below, FINRA has carefully managed its expenses; however, careful expense management cannot suffice as a sustainable financial strategy in the long term, particularly in the context of rising systemic costs and FINRA's increasing regulatory responsibilities.

Background

Over the past several years, FINRA's regulatory and oversight responsibilities have grown significantly, and FINRA anticipates that they will continue to grow over the rest of this decade, requiring investments in technology and increased headcount.

¹² See FINRA 2024 Annual Budget Summary, <https://www.finra.org/sites/default/files/2024-06/FINRA-2024-Annual-Budget-Summary.pdf>, at 2. This potential loss is in line with FINRA's previous multiyear strategic planning for financial sustainability, which contemplates a series of annual losses in order to reduce the size of FINRA's reserves. As discussed in the Guiding Principles, FINRA has relied on its financial reserves, which were originally derived from the sale of Nasdaq, to help support its regulatory mission. See also Funding FINRA's Mission, available at <https://www.finra.org/media-center/blog/funding-finras-mission>.

FINRA has made reasonably conservative assumptions using a variety of information points, including historical data and anticipated trends. If FINRA's structural financial deficit is materially reduced during this period, or if key assumptions change materially, FINRA would consider various modifications as appropriate. For example, FINRA has used rebates to support its commitment to reasonable, cost-based fee assessments in instances where revenues significantly exceed expenditures. These rebates are approved by the FINRA Board of Governors. A number of factors must be considered when determining whether to provide rebates, including the amount of excess revenue for the year, whether budget projections anticipate near-term revenue shortfalls, and the number of firms that would be eligible to receive rebates. FINRA makes information about these factors transparent to the public each year.

Simultaneously, FINRA has experienced substantial systemic expense growth resulting from, among other things, elevated wage inflation and increased operating costs related to technology.¹³ Several factors have contributed to these areas of growth, including: continued increases in the volume and complexity of member activity; new investment products, services, and market participants under FINRA's purview; the continuing evolution of market structure and trading patterns; and the SEC's adoption of significant new rules that require implementation by FINRA and its expanded member oversight.

For example, FINRA has made substantial investments to supervise or comply with new and amended SEC rules, such as amendments to Disclosure of Order Execution Information, Regulation M, Shortening the Securities Transaction Settlement Cycle, Regulation Best Interest, Market Data Infrastructure, and Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders. FINRA must also be prepared to implement and supervise significant potential new and amended rules that the SEC has proposed, including Regulation S-P, Conflicts of Interest Associated with the Use of Predictive Data Analytics, Regulation Systems Compliance and Integrity, Cybersecurity Risk Management, Regulation Best Execution, and the Order Competition Rule. Furthermore, FINRA is investing in preparation for its expanded role in the oversight of a broader range of market participants under several SEC rulemakings. For example, the SEC has narrowed the exemption for certain exchange members under Exchange Act Rule 15b9-1, further defined "as part of a regular business"¹⁴ in the definitions of "dealer"

¹³ FINRA's technology costs, for example, have risen by approximately 11% per year over the last five years.

¹⁴ The updated definition covers additional market participants engaged in liquidity-providing activities that generally would require SRO membership.

and “government securities dealer” under the Exchange Act, and proposed to amend the definition of “exchange” under Exchange Act Rule 3b-16 and amend Regulation ATS.

FINRA is also investing to enable continued effective oversight over evolving trading patterns, such as the significant growth in retail trading, growth in smaller and fractional share trading, and increased trading outside of regular trading hours. These and other market developments, together with the evolution of new and evolving products such as securities with crypto asset components and short-dated options products, require increased oversight by FINRA staff.

FINRA is committed to a culture of continuous improvement, with a rigorous focus on carefully managing costs and identifying new efficiency opportunities, where consistent with its mission. FINRA has exercised prudent expense control and managed costs through various initiatives and technology investments that have helped to enhance efficiency and effectiveness. Beginning with the FINRA360¹⁵ initiative, which launched a comprehensive self-evaluation and organizational improvement exercise in 2017 to ensure that FINRA was maximizing its effectiveness, FINRA has implemented a number of enhancements including: enforcement program consolidation; new external transparency tools; the launch of the Small Firm Helpline; increased examiner training; creation of an Innovation Outreach Initiative; and the development of a program to evaluate and integrate advances in data analytics.

FINRA continues to invest in technology to better serve its mission and to improve FINRA’s ability to communicate with members. For example, FINRA

¹⁵ Detailed information about the FINRA360 initiative is available at <https://www.finra.org/about/finra-360>.

completed a multi-year digital platform upgrade that improved system interfaces, including essential registration and disclosure systems used by members.¹⁶ FINRA also continues to build on its early use of cloud computing in regulation, and invested in an Advanced Analytics Program that supports risk identification and other regulatory efforts. In the interest of regulatory efficiency, FINRA also recently discontinued a program requiring the reporting of prescribed data by certain members based on availability of data from alternative sources, resulting in millions of dollars in cost savings benefits to members.¹⁷

Further, cost savings have been accomplished in recent years through supplementary expense reduction initiatives, including conducting a comprehensive efficiency review of FINRA’s core business lines; establishing a framework for improving measurement of FINRA’s key performance results; voluntary retirement/incentive programs in 2020 and 2024; and strategic reductions in FINRA’s corporate real estate footprint.

Given this context, and despite the significant increase in the breadth and complexity of FINRA’s regulatory responsibilities, FINRA’s expense growth rate from 2013 through 2023 has been significantly lower than that of the broader financial services industry. Specifically, FINRA’s costs increased by 41% cumulatively during this period

¹⁶ Detailed information about FINRA’s “Digital Experience Transformation” is available at <https://www.finra.org/filing-reporting/dxt>. FINRA built the capabilities of the Digital Experience Transformation initiative in consultation with the industry, and FINRA’s investment is estimated to save the industry more than \$200 million annually in time and direct costs.

¹⁷ See Regulatory Notice 23-17 (October 2023).

compared with 129% for the industry.¹⁸ Similarly, FINRA's total compensation costs rose by 31% on a cumulative basis during this period as compared with a 50% increase for the average U.S. financial services employee.¹⁹ FINRA's restrained expense growth is the result of careful management of both compensation costs, the largest driver of FINRA's budget, and non-compensation costs, such as technology and real estate.

Notwithstanding these efforts, as discussed, FINRA projects that its current fees will not keep pace with its projected future expenses. FINRA therefore proposes to increase its fees as described below.

Proposal

The proposed rule change would raise FINRA's core regulatory fees²⁰ as well as select use-based fees²¹ that fund various FINRA services and programs. Consistent with the Guiding Principles, the proposed rule change would more effectively allow FINRA to

¹⁸ Based on FOCUS reporting.

¹⁹ FINRA total compensation represents business compensation, excluding technology. Average U.S. employee wage growth represents Finance and Business Services wage growth supplied by the Bureau of Labor Statistics and Federal Reserve Bank of Atlanta. See Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations at <https://www.atlantafed.org/chcs/wage-growth-tracker>.

²⁰ For ease of reference in this filing, FINRA refers to the following core regulatory fees: GIA; TAF; PA; Branch Office Fees; Registration; Qualification Examination; Continuing Education Regulatory Element Reporting; Late Disclosure; System Processing; and Renewal Late Fee.

²¹ For ease of reference in this filing, FINRA refers to the following select use-based fees: Corporate Financing Private Placement Review; Corporate Financing Public Offering Review; Advertising Regulation Review; DRS Arbitration; and Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time. The proposed fee increase will apply to filings or submissions related to these use-based services on or after the effective date.

balance its cash flow sources, operating expenses and capital expenditures, and stabilize its financial reserves by 2029. As discussed above, a minority of proposed fee increases would go into effect in 2025, while most fees would be implemented in 2026 or later, and several fees would be phased in over several years between 2025 and 2029.²² The following table summarizes the proposed timeline for implementing each fee increase:

<u>Fee Implementation Schedule</u> ²³	
<u>Fee</u>	<u>Implementation Schedule</u>
Advertising Regulation Review	2025
DRS Arbitration	2025
Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time	2025
Corporate Financing Private Placement Review	2025 (Q3)
Corporate Financing Public Offering Review	2025 (Q3)-2029
Branch Office Fees	2026, 2028
Continuing Education Regulatory Element	2026
Late Disclosure	2026
Qualification Examination	2026
System Processing	2026, 2028
GIA	2026-2028
TAF	2026-2029
PA	2026-2029
Registration	2028

²² FINRA considered feedback from members of FINRA's advisory committees and other industry consultations that emphasized the importance of advance notice of fee increases to permit member firms to better plan for the proposed package of fee increases over multiple budget cycles. FINRA also considered stakeholder feedback that one-time increases for certain fees help reduce the administrative burdens on members.

²³ Fees listed in chronological order of initial implementation. Unless specified otherwise in the table above, the proposed fee increase would take effect on January 1 of the year stated. This table does not include proposed conforming amendments to two fees that impact funding portal members.

Renewal Late Fee	2028
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Taken together, the proposed rule change is projected to generate additional revenue of between \$40 million and \$160 million each year compared to the previous year from 2025 through 2029. The amount of the increase varies each year due to the phased implementation schedule described above. Cumulatively, the proposed rule change would increase FINRA’s annual fee revenues by an estimated \$450 million (once fully implemented in 2029) as compared to the annual fee revenues that would have existed in the absence of the proposed rule change. As such, the proposed rule change is calibrated to cover FINRA’s projected budget deficit and achieve a balanced budget by 2029.²⁴ This approach will retain FINRA’s reserve balance at its target level based on FINRA’s projected revenue and costs,²⁵ while providing members advance notice of fee

²⁴ As discussed below, Chart 2, attached in Exhibit 3, demonstrates the difference between FINRA’s projected cash flow sources and cash flow uses through 2029, absent the proposed rule change.

²⁵ Anticipated costs would not include potential costs associated with new services that may be initiated or approved in the future. FINRA may submit separate fee filings to cover program costs for new services. FINRA notes this proposed rule change does not include fees associated with the Consolidated Audit Trail (“CAT”) or the Securities Lending and Transparency Engine (“SLATE”), both of which are subject to separate proposed rule changes with the Commission. See, e.g., Securities Exchange Act Release No. 100920 (September 4, 2024), 89 FR 73457 (September 10, 2024) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2024-011); Securities Exchange Act Release No. 100920 (September 4, 2024), 89 FR 73457 (September 10, 2024) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2024-012). Similarly, FINRA notes that program costs associated with the reporting of transactions in U.S. Treasury Securities (“Treasuries”) are not included in the targeted amount sought by this proposal; currently, Treasuries transactions are exempted from both TRACE transaction reporting fees and from the TAF. See Securities Exchange Act Release No. 79116 (October 18, 2016), 81 FR 73167, 73176 (October 24, 2016) (Order Approving File No. SR-FINRA-2016-027).

increases, phasing some of the increases over multiple years, and maintaining an equitable allocation of fees among FINRA members. As discussed further below, under the proposed rule change, the current proportion of fees borne by FINRA members based on firm size and business model, respectively, would remain stable through 2029.²⁶

In total, the proposed fee changes will result in a compounded annualized growth rate (“CAGR”) of 5.3% across total FINRA fees between 2025 and 2029.²⁷ Excluding specific fees typically passed on by members,²⁸ the CAGR between 2025 and 2029 is projected to be 4.8% for FINRA members. Further, assuming that the majority, if not all, of TAF is also passed directly through to investors, the fee increase CAGR falls to the 3% to 4% range for FINRA members.²⁹ During the same period, FINRA reasonably anticipates that its future expenses will grow at a CAGR of 5.9%, with a portion of such expense growth covered by anticipated cash flow sources other than the proposed fee increases. FINRA’s fees will continue to represent a small dollar proportion of industry revenues as reported in FOCUS reports. FINRA estimates that FINRA’s total fees when

²⁶ See Exhibit 3, Charts 5 and 6.

²⁷ The CAGR provides a geometric average of the change in fees over the implementation period. It is particularly useful for comparing growth rates from various sets of data over the same multi-year period.

²⁸ Some of the fees discussed in this filing are or would be absorbed by non-members, including Corporate Financing review fees for public offerings and private placements, which are generally passed through to issuers, and a portion of DRS fees that are paid directly by customers.

²⁹ Many members identify that they pass through TAF to customers. Assuming 65% of TAF is passed to non-members, the fee increase CAGR to membership falls to 3.9%. If 100% of TAF is passed through, the fee increase CAGR to FINRA’s membership falls to 3.1%.

the proposed fee increases are fully implemented would represent approximately 0.31% of recent industry revenues by 2029.³⁰

In sum, the proposed rule change is designed to collect the targeted revenue amount needed to address FINRA's projected budget deficit through a combination of core regulatory and select use-based fees that yield an equitable overall fee increase across member size and type. The proposed rule change is thus designed to preserve the same SEC-approved, equitable fee allocation across members that FINRA has maintained for years by minimizing the change to distribution of fees across members.

Each specific fee in the proposed rule change is described below.

Core Regulatory Fees

Gross Income Assessment

The GIA is a core regulatory fee designed to correlate to one of the three critical components of FINRA's regulatory costs—the size of a firm (based on revenue).

Accordingly, the GIA is based on a firm's annual gross revenue,³¹ employing a graduated seven-tier rate structure that has applied since 2008.³²

³⁰ Industry revenue projections for 2029 are based on historical FOCUS revenue growth of 8.5% (2013-2023).

³¹ Section 2 of Schedule A to the FINRA By-Laws defines gross revenue for assessment purposes as total income as reported on FOCUS form Part II or IIA, excluding commodities income.

³² The applicable GIA rate applies on a marginal basis to annual gross revenues that exceed each applicable threshold. While the GIA rate structure has not changed since 2008, FINRA made modifications to the method of GIA calculation under the structure in 2009 and 2014, and increased the GIA rate between 2022 and 2024. In 2009, the Commission approved a GIA calculation modification designed to mitigate year-to-year revenue volatility by assessing members the greater of a GIA calculated based on the firm's annual gross revenue from the preceding calendar year, or a GIA averaged over the prior three years. See Order

Section 1(c) of Schedule A to the FINRA By-Laws sets forth the GIA. The current rates, which reflect the fee adjustments made from 2022 through 2024, are as follows:

- (1) \$1,200.00 on annual gross revenue up to \$1 million;
- (2) 0.1732% of annual gross revenue greater than \$1 million up to \$25 million;
- (3) 0.3705% of annual gross revenue greater than \$25 million up to \$50 million;
- (4) 0.0738% of annual gross revenue greater than \$50 million up to \$100 million;
- (5) 0.0520% of annual gross revenue greater than \$100 million up to \$5 billion;
- (6) 0.0566% of annual gross revenue greater than \$5 billion up to \$25 billion; and
- (7) 0.1219% of annual gross revenue greater than \$25 billion.

Thus, for example, under the current rates, for a member with annual gross revenue of \$30 billion, the GIA would be calculated as follows: the first \$1 million at the Tier 1 rate (\$1,200), plus the next \$24 million at the Tier 2 rate (0.1732%), plus the next \$25 million at the Tier 3 rate (0.3705%), plus the next \$50 million at the Tier 4 rate (0.0738%), plus the next \$4.9 billion at the Tier 5 rate (0.0520%), plus the next \$20 billion at the Tier 6 rate (0.0566%), plus the final \$5 billion at the Tier 7 rate (0.1219%), for a total assessment of \$20,135,293.

Approving SR-FINRA-2009-057, supra note 8, 74 FR 62616, 62617. In 2014, FINRA refined the GIA calculation method to provide limited relief for smaller member firms from unintended effects of the 2009 calculation change; as a result of the 2014 change, firms that have annual gross revenue of \$25 million or less pay the GIA based on preceding year revenue without looking to a three-year average. See Securities Exchange Act Release No. 73632 (November 18, 2014), 79 FR 69937 (November 24, 2014) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2014-046). In 2020, FINRA proposed changes to the GIA tier rates, which went into effect between 2022 and 2024. See Order Approving SR-FINRA-2020-032, supra note 3, 85 FR 66592.

FINRA is proposing the following changes to its GIA tier rates from 2026 through 2028.³³

<u>GIA – Proposed Implementation</u>						
<u>Tier (Revenue)</u>	<u>2024 (current)</u>	<u>2025 (no change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$0 to \$1 million	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Greater than \$1 million up to \$25 million	0.1732%	0.1732%	0.1827%	0.2056%	0.2280%	0.2280%
Greater than \$25 million up to \$50 million	0.3705%	0.3705%	0.3909%	0.4397%	0.4877%	0.4877%
Greater than \$50 million up to \$100 million	0.0738%	0.0738%	0.0779%	0.0876%	0.0972%	0.0972%
Greater than \$100 million up to \$5 billion	0.0520%	0.0520%	0.0549%	0.0618%	0.0685%	0.0685%
Greater than \$5 billion up to \$25 billion	0.0566%	0.0566%	0.0597%	0.0672%	0.0745%	0.0745%
Greater than \$25 billion	0.1219%	0.1219%	0.1286%	0.1447%	0.1604%	0.1604%

Thus, for example, under the new rates once fully implemented in 2029, for a member with annual gross revenue of \$30 billion, the GIA would be calculated as follows: the first \$1 million at the Tier 1 rate (\$1,200), plus the next \$24 million at the

³³ FINRA notes the Exhibit 5 to this proposed rule change is marked to show the changes as they are proposed to take effect each year, as described in this filing. Specifically, Exhibit 5A and 5B shows the proposed changes that would take effect in 2025, Exhibit 5C shows the proposed changes that would take effect in 2026, Exhibit 5D shows the proposed changes that would take effect in 2027, Exhibit 5E shows the proposed changes that would take effect in 2028, and Exhibit 5F shows the proposed changes that would take effect in 2029.

Tier 2 rate (0.2280%), plus the next \$25 million at the Tier 3 rate (0.4877%), plus the next \$50 million at the Tier 4 rate (0.0972%), plus the next \$4.9 billion at the Tier 5 rate (0.0685%), plus the next \$20 billion at the Tier 6 rate (0.0745%), plus the final \$5 billion at the Tier 7 rate (0.1604%), for a total assessment of \$26,502,945.

When the proposed GIA rates are fully implemented, they are designed to generate an additional \$80 million in annual revenue by 2029. The proposed GIA increase preserves the existing seven-tier structure and calculation method while raising each tier proportionately. With these proposed increases, the GIA structure would continue to reflect the costs associated with performing regulatory responsibilities across FINRA's diverse population of members. Notably, the proposed rule change would not increase the flat \$1,200 fee for members with revenues of \$1 million or less. Maintaining this fee level for the smallest members preserves FINRA's existing approach to cost distribution between members of varying sizes.

Further, FINRA seeks to preserve the historical proportionality across fees associated with the three main components of FINRA's regulatory costs—the size of the firm measured by firm revenue, the firm's trading activity, and the number and role of persons registered with the firm—with the aim of collecting a generally comparable amount of revenue from fees associated with each of these components once the proposed rule change is fully implemented. To that end, the proposed rule change would increase the GIA at a reduced rate relative to the other core regulatory fees. This is because, for 2024, GIA revenues exceeded projections due to record aggregate industry revenues. As a result, FINRA has proposed to phase in the proposed increases to the GIA more gradually, and at a reduced rate, relative to the other core regulatory fees to help

preserve historical proportionality across these fees and achieve a generally comparable revenue distribution. FINRA believes this proportional approach to fee increases will provide member firms a greater degree of certainty and predictability, as it seeks to maintain consistency with FINRA's existing equitable fee distribution. FINRA further believes its proportional approach reduces the potential for unintended impacts on the services provided by member firms, and the business models they adopt, that could arise from significant changes to fee distribution.

Trading Activity Fee

The TAF is a core regulatory fee designed to correlate to a critical component of FINRA's regulatory costs—the trading activity of a firm. FINRA initially adopted the TAF in 2002, modeled on the Commission's transaction-based Section 31 fee.³⁴ The TAF is generally assessed on the sale of all exchange-listed securities wherever executed (except debt securities that are not TRACE-Eligible Securities), over-the-counter equity securities, security futures, TRACE-Eligible Securities (provided that the transaction is a Reportable TRACE Transaction), and all municipal securities subject to Municipal Securities Rulemaking Board reporting requirements.³⁵ The current TAF rates, which reflect the fee adjustments made from 2022 through 2024, are:

³⁴ See Securities Exchange Act Release No. 46416 (August 23, 2002), 67 FR 55901 (August 30, 2002) (Notice of Filing and Immediate Effectiveness of File No. SR-NASD-2002-98).

³⁵ Certain types of transactions are excluded from the TAF (e.g., primary market transactions, proprietary transactions executed by a member on a national securities exchange in the member's capacity as an exchange specialist or market maker, transactions effected by a proprietary trading firm on an exchange of which such firm is a member, and transactions in U.S. Treasury Securities). See FINRA By-Laws, Schedule A, Section 1(b)(2) (providing full list of transactions

- (1) \$0.000166 per share for each sale of a covered equity security, with a maximum charge of \$8.30 per trade;
- (2) \$0.00279 per contract for each sale of an option;
- (3) \$0.00011 per contract for each round turn transaction of a security future, provided there is a minimum charge of \$0.014 per round turn transaction;
- (4) \$0.00105 per bond for each sale of a covered TRACE-Eligible Security (other than an Asset-Backed Security) and/or municipal security, with a maximum charge of \$1.05 per trade; and
- (5) \$0.00000105 times the value, as reported to TRACE, of a sale of an Asset-Backed Security, with a maximum charge of \$1.05 per trade.³⁶

FINRA is proposing the following changes to its TAF rates between 2026 and 2029:

<u>TAF– Proposed Implementation</u>						
<u>Security Type</u>	<u>2024 (current)</u>	<u>2025 (no change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Covered Equity Security	\$0.000166 per share (up to \$8.30 max per trade)	\$0.000166 per share (up to \$8.30 max per trade)	\$0.000195 per share (up to \$9.79 max per trade)	\$0.000232 per share (up to \$11.61 max per trade)	\$0.000240 per share (up to \$12.05 max per trade)	\$0.000249 per share (up to \$12.50 max per trade)
Options	\$0.00279 per contract	\$0.00279 per contract	\$0.00329 per contract	\$0.00390 per contract	\$0.00404 per contract	\$0.00420 per contract

exempt from the TAF). This proposed rule change would not change the scope of any current TAF exemptions.

³⁶ If the execution price for a covered security is less than the TAF rate (\$0.000166 for covered equity securities, \$0.00279 for covered options contracts, or \$0.014 for a security future) on a per share, per contract, or round turn transaction basis, then no fee is assessed.

Security Future	\$0.00011 per contract (with \$0.014 minimum per round turn transaction)	\$0.00011 per contract (with \$0.014 minimum per round turn transaction)	\$0.000135 per contract (with \$0.016 minimum per round turn transaction)	\$0.00016 per contract (with \$0.019 minimum per round turn transaction)	\$0.000166 per contract (with \$0.020 minimum per round turn transaction)	\$0.000172 per contract (with \$0.021 minimum per round turn transaction)
TRACE-Eligible Security (Other than Asset-Backed Security) or municipal security	\$0.00105 per bond (up to \$1.05 max per trade)	\$0.00105 per bond (up to \$1.05 max per trade)	\$0.00124 per bond (up to \$1.24 max per trade)	\$0.00147 per bond (up to \$1.47 max per trade)	\$0.00153 per bond (up to \$1.53 max per trade)	\$0.00158 per bond (up to \$1.58 max per trade)
TRACE-Eligible Asset-Backed Security	\$0.00000105 times reported value (up to \$1.05 max per trade)	\$0.00000105 times reported value (up to \$1.05 max per trade)	\$0.00000124 times reported value (up to \$1.24 max per trade)	\$0.00000147 times reported value (up to \$1.47 max per trade)	\$0.00000153 times reported value (up to \$1.53 max per trade)	\$0.00000158 times reported value (up to \$1.58 max per trade)

When the new TAF rates are fully implemented, they are designed to generate an additional \$186 million in annual revenue by 2029. The proposed TAF changes reflect proportional increases in the amount raised for each security type—meaning there is no anticipated change in the percentage of overall TAF revenue collected from transactions in each security type—phased in incrementally over the delayed four-year implementation period. Accordingly, while TAF revenues are largely derived from transactions in equity securities, like the SEC’s Section 31 fee, this proposed rule change is intended to preserve the current distribution of TAF fees among security types.

The aggregate TAF increases would generate more revenue relative to the other core regulatory fees to preserve the historical proportionality among the core regulatory fees associated with firm trading activity and the other main components of FINRA’s regulatory costs—the size of the firms measured by firm revenue and the number and role of persons registered with the firm—while seeking to collect a generally comparable amount of revenue from fees associated with each component. This is consistent with the proportional approach to fee increases discussed throughout this filing, which seeks to maintain consistency with FINRA’s existing equitable fee distribution.

Personnel Assessment

The PA is a core regulatory fee designed to correlate to the third critical component of FINRA’s regulatory costs—the number and role of registered persons at a firm. The PA currently is assessed on a three-tiered rate structure: members with one to five registered representatives and principals are assessed \$210 for each such registered person (“Reps” in the table below); there is a \$200 charge for each of the next 20 registered persons (between 6 and 25); and a \$190 charge for each additional registered person beyond 25 registered persons.

Section 1(e) of Schedule A to the FINRA By-Laws sets forth the PA. These rates last increased between 2022 and 2024.³⁷ FINRA is proposing the following increases to its PA tier rates between 2026 and 2029:

<u>PA – Proposed Implementation</u>						
<u>Tier (No. of Reps)</u>	<u>2024</u>	<u>2025 (no change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>

³⁷ See Order Approving SR-FINRA-2020-032, supra note 3, 85 FR 66592.

Reps 0-5	\$210	\$210	\$245	\$260	\$270	\$295
Reps 6-25	\$200	\$200	\$235	\$250	\$260	\$285
Reps 26 and greater	\$190	\$190	\$225	\$240	\$250	\$275

When the proposed PA rates are fully implemented, they are designed to generate an additional \$52 million in annual revenue by 2029. The proposed PA increases, together with the proposed increases to the use-based fees aligned with the number and role of registered persons at a firm discussed below, are calibrated to preserve the historical proportionality among the core regulatory fees associated with the three main components of FINRA's regulatory costs and collect a generally comparable amount of revenue from fees associated with each component. This is consistent with the proportional approach to fee increases discussed throughout this filing, which seeks to maintain consistency with FINRA's existing equitable fee distribution.

Branch Office Fees

FINRA members are assessed regulatory fees for registered branch offices. These fees are related to firm size and structure. Section 4(a) of Schedule A to the FINRA By-Laws includes a branch office registration fee and a branch office system processing fee upon the initial registration of each branch office as defined in the By-Laws. The initial branch office registration fee is waived for the first branch office registered by a member. In addition, each member is assessed an annual registration fee for each branch office registered by the member. This fee has a tiered regressive rate structure that assesses a per branch office annual registration fee depending on the number of branch offices the firm has. Currently, each member is assessed an annual registration fee of: (1) \$175, for each of the first 250 branch offices registered by the member; (2) \$150, for each of branch offices 251 to 500 registered by the member; (3) \$125, for each of branch offices 501 to 1,000 registered by the member; (4) \$100, for each of branch offices 1,001 to 2,000 registered by the member; and (5) \$75, for every branch office greater than 2,000 registered by the member. For one branch office per member per year, the annual branch office registration fee and annual branch office system processing fee is waived.

FINRA has not increased the branch office registration fee since 2013.³⁸ FINRA is proposing to retain the tiered regressive rate structure, but increase the branch office registration fee in 2026 as follows:

³⁸ See Regulatory Notice 12-32 (June 2012).

<u>Branch Office Registration Fees – Proposed Implementation</u>						
<u>Fee</u>	<u>2024</u> <u>(Current)</u>	<u>2025 (No</u> <u>Change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
FINRA Branch Registration Fee	\$75	\$75	\$105	\$105	\$105	\$105
Annual Registration Fee 1-250 branch offices registered by the member	\$175	\$175	\$245	\$245	\$245	\$245
Annual Registration Fee 251-500 branch offices registered by the member	\$150	\$150	\$210	\$210	\$210	\$210
Annual Registration Fee 501-1000 branch offices registered by the member	\$125	\$125	\$175	\$175	\$175	\$175
Annual Registration Fee 1001-2000 branch offices registered by the member	\$100	\$100	\$140	\$140	\$140	\$140
Annual Registration Fee 2001+ branch offices registered by the member	\$75	\$75	\$105	\$105	\$105	\$105

When the proposed branch office registration fee changes are fully implemented, they are designed to generate \$7 million in annual revenue by 2029.³⁹ The proposed rule

³⁹ The projected revenue from the proposed increased Branch Office Fees assumes that the number of branch offices will remain at 2024 levels through 2029. Due to the COVID-19 pandemic, FINRA had provided regulatory relief including a temporary suspension of the requirements to maintain updated Form U4 information regarding the office of employment address for registered persons who temporarily relocated due to the pandemic, and the requirement to submit branch office applications on Form BR for any newly opened temporary office locations or space-sharing arrangements. See Regulatory Notice 20-08 (March 2020). In mid-2024, that relief ended and FINRA implemented new Rule 3110.19, which exempts from branch office registration a residential supervisory location (or RSL). An RSL is a private residence at which an associated person engages in specified supervisory activities, subject to certain safeguards and limitations. See Regulatory Notice 24-02 (January 2024). FINRA believes its assumptions are reasonable given the recency of these changes. As noted, if key assumptions change materially, FINRA would consider various modifications as appropriate, including rebates, for example. See supra note 12.

change would retain the same tiered regressive rate structure that assesses a per branch office annual registration fee depending on the number of branch offices of the firm, but would raise the fee associated with each range of branch office numbers. FINRA would continue to waive, for one branch office per member per year, payment of the annual registration fee, but increase the amount of the waiver from \$175 to \$245 to match the new rates.

FINRA has not increased the branch office system processing fee since 2022.⁴⁰ FINRA is proposing to increase the branch office system processing fee in 2028 as follows:

<u>Branch Office System Processing Fee – Proposed Implementation</u>						
<u>Fee</u>	<u>2024 (Current)</u>	<u>2025 (No Change)</u>	<u>2026 (No Change)</u>	<u>2027 (No Change)</u>	<u>2028</u>	<u>2029</u>
Branch Office System Processing Fee (initial and annual)	\$75	\$75	\$75	\$75	\$105	\$105

When the proposed branch office system processing fee change is fully implemented, it is designed to generate \$4 million in annual revenue by 2029.⁴¹ FINRA would continue to waive, for one branch office per member per year, payment of the annual branch office system processing fee, but increase the amount of the waiver from \$75 to \$105 to match the new rates. FINRA believes these proposed increases to the

⁴⁰ See supra note 3.

⁴¹ See supra note 39.

branch office fees, which relate to firm size and structure, are consistent with the proportional approach to fee increases discussed throughout this filing.

Registration Fees

Registration fees are registered person-level fees that, while use-based, also correlate to the third critical component of FINRA’s regulatory costs—the number and role of registered persons at a firm. Section 4 of Schedule A to the FINRA By-Laws establishes fees connected to FINRA’s operation of the Central Registration Depository (“Web CRD®” or “CRD system”), the central licensing and registration system that FINRA operates for the benefit of FINRA, the SEC, other SROs, state securities regulators, and broker-dealer firms. The CRD system contains the registration records of broker-dealer firms and their associated individuals including their qualification, employment, and disclosure histories; it also facilitates the processing of, among other things, form filings and facilitates the making of fingerprint results available to the appropriate authorized recipients.⁴² The CRD system enables individuals and firms seeking registration with multiple states and SROs to do so by submitting a single form and fee payment.⁴³

⁴² Specified information reported to the CRD system is displayed in BrokerCheck®, an electronic system that provides the public with information on the professional background, business practices, and conduct of FINRA members and their associated persons. Investors use BrokerCheck to help make informed choices about the individuals and firms with which they currently conduct or are considering conducting business.

⁴³ FINRA outsources fingerprint processing to Sterling Identity (“Sterling”), an FBI-approved channeler that processes fingerprints for members on FINRA’s behalf. This provides for a more efficient and streamlined process with fewer fingerprint rejections, secure electronic transmission of FBI results, and significantly reduced

FINRA last increased associated registration fees between 2022 and 2024.⁴⁴

FINRA has explained that these fees are important to fund activities that help ensure the integrity of information in the CRD system—information critical to FINRA and other regulators, as well as to investors through BrokerCheck—and to support FINRA’s overall regulatory mission.⁴⁵ FINRA is proposing to increase certain registration fees⁴⁶ in 2028 as follows:

<u>Registration Fees – Proposed Implementation</u>						
<u>Fee</u>	<u>2024</u> <u>(current)</u>	<u>2025</u> <u>(no</u> <u>change)</u>	<u>2026</u> <u>(no</u> <u>change)</u>	<u>2027</u> <u>(no</u> <u>change)</u>	<u>2028</u>	<u>2029</u>
Initial/Transfer Registration Form U4 filing ⁴⁷	\$125	\$125	\$125	\$125	\$175	\$175

turn-around times. Sterling assesses and collects all fees for fingerprint collection and processing, including the FBI fee.

⁴⁴ See Order Approving SR-FINRA-2020-032, supra note 3, 85 FR 66592.

⁴⁵ See Securities Exchange Act Release No. 67247 (June 25, 2012), 77 FR 38866 (June 29, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2012-030).

⁴⁶ FINRA also proposes conforming changes to Section 15(g) of Schedule A to the FINRA By-Laws to align this proposed fee change with the same fees for Funding Portal members.

⁴⁷ This fee applies for each initial or transfer Uniform Application for Securities Industry Registration or Transfer (“Form U4”) filed by a member in the CRD system to register an individual. Section 4(b)(1) of Schedule A includes a discount in cases where a member is transferring the registrations of individuals in connection with the acquisition of all or part of another member’s business. The discount ranges from 10 to 50 percent, based on the number of registered personnel being transferred. While FINRA is proposing to increase the registration fee, it is not proposing to make any changes to the discount schedule.

Termination U5 filing	\$50 (plus \$100 if late filed)	\$50 (plus \$100 if late filed)	\$50 (plus \$100 if late filed)	\$50 (plus \$100 if late filed)	\$70 (plus \$140 if late filed)	\$70 (plus \$140 if late filed)
Disclosure review ⁴⁸	\$155	\$155	\$155	\$155	\$215	\$215
Electronic Fingerprinting ⁴⁹	\$20 ⁵⁰	\$20 ⁵¹	\$20	\$20	\$28	\$28
Non-Electronic Fingerprinting ⁵²	\$30	\$30	\$30	\$30	\$42	\$42
Fingerprinting Processed Through Another SRO	\$30	\$30	\$30	\$30	\$42	\$42

When these proposed registration fee changes are fully implemented, they are designed to generate an additional \$10 million in annual revenue by 2029.

Renewal Late Fee

Members renew their registrations with FINRA, other SROs and states/jurisdictions during the annual renewal program. Section 4(b)(8) of Schedule A to

⁴⁸ This fee applies for the additional processing of each initial or amended Form U4, Form U5, or Form BD that includes the initial reporting, amendment, or certification of one or more disclosure events or proceedings.

⁴⁹ This fee applies for processing and posting to the CRD system each set of fingerprints submitted electronically by a member to FINRA, plus any other charge that may be imposed by the United States Department of Justice for processing each set of fingerprints.

⁵⁰ In 2024, the fee for funding portal members that submit fingerprints electronically is \$15. See Section 15(g) of Schedule A to FINRA By-Laws.

⁵¹ As discussed below, FINRA proposes a conforming change in 2025 to Section 15(g) of Schedule A to the FINRA By-Laws to align the fee for funding portal members that submit fingerprints electronically with the same fee charged to broker-dealer members.

⁵² This fee applies for processing and posting to the CRD system each set of fingerprints submitted in non-electronic format by a member to FINRA, plus any other charge that may be imposed by the United States Department of Justice for processing each set of fingerprints.

the FINRA By-Laws sets forth the renewal late fee, which applies if a member fails to timely pay the amount indicated on its preliminary annual renewal statement.⁵³ Where this late fee applies, FINRA includes it as part of the final statement. Currently, this fee is the greater of 10 percent of the member's final annual renewal assessment or \$100, with a maximum charge of \$5,000. FINRA has not increased the renewal late fee since it was established in 2002.⁵⁴

FINRA is proposing to increase the renewal late fee in 2028 as follows:

<u>Renewal Late Fee – Proposed Implementation</u>						
The Renewal Late Fee is 10 percent of a member's cumulative final renewal statement with the following minimums and maximums:						
<u>Fee</u>	<u>2024</u> <u>(current)</u>	<u>2025 (no</u> <u>change)</u>	<u>2026 (no</u> <u>change)</u>	<u>2027 (no</u> <u>change)</u>	<u>2028</u>	<u>2029</u>
The minimum late fee FINRA will assess is	\$100	\$100	\$100	\$100	\$140	\$140
The maximum late fee FINRA will assess is	\$5,000	\$5,000	\$5,000	\$5,000	\$7,000	\$7,000

FINRA notes that it collects all applicable renewal fees on behalf of itself and participating regulators, which enables members to submit their total renewal payment to FINRA instead of to each regulator. Among other reasons noted, FINRA believes this proposed fee increase would further encourage members to submit such fees on time.

⁵³ Members receive a preliminary annual renewal statement that reflects approved registrations at the time the statement is generated. The statement also includes a date by which members must make full payment available to FINRA.

⁵⁴ See Securities Exchange Act Release No. 46466 (September 6, 2002), 67 FR 58092 (September 13, 2002) (Notice of Filing and Immediate Effectiveness of File No. SR-NASD-2002-100).

When the proposed renewal late fee changes are fully implemented, they are designed to generate an additional \$100,000 in annual revenue by 2029.

Late Disclosure Fee

Related to the registration functions described above, FINRA charges a fee for each day that a new disclosure event or a change in the status of a previously reported disclosure event is not timely filed on an initial or amended Form U5 or an amended Form U4. Section 4(h) of Schedule A to the FINRA By-Laws sets forth the late disclosure fee. This fee is assessed starting on the day following the last date on which the event or change in status was required to be reported.

Timely and complete reporting of all information required by the FINRA By-Laws and rules, as well as the federal securities laws, is critical to investor protection. The SEC, FINRA, other SROs and state securities regulators use the information to make licensing and registration decisions, among other things. FINRA also publishes information in FINRA BrokerCheck, which investors use for researching the professional backgrounds of firms and brokers.

FINRA has not increased the late disclosure fee since 2013.⁵⁵ Currently, disclosures filed more than 60 days following the last date on which the event was required to be reported under FINRA rules account for 50 percent of volume and 78 percent of revenues related to late filing fees.

FINRA is proposing to increase the late disclosure fee⁵⁶ in 2026 as follows:

⁵⁵ See Regulatory Notice 12-32, supra note 38.

⁵⁶ FINRA also proposes conforming changes to Section 15(e) of Schedule A to the FINRA By-Laws to align this proposed fee change with the same fee for Funding Portal members.

<u>Late Disclosure Fee – Proposed Implementation</u>						
<u>Fee</u>	<u>2024 (Current)</u>	<u>2025 (No Change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
First Day	\$100	\$100	\$100	\$100	\$100	\$100
Subsequent Days	\$25	\$25	\$40	\$40	\$40	\$40
Maximum Fee	\$1,575	\$1,575	\$2,460	\$2,460	\$2,460	\$2,460

FINRA believes this proposed fee increase would further encourage firms to file timely and complete initial Forms U4 and U5 and amendments to these forms, while also generating additional revenue as part of the overall proposal to increase fees to fund FINRA’s regulatory mission. When the proposed late disclosure fee changes are fully implemented, they are designed to generate an additional \$3 million in annual revenue by 2029.⁵⁷

System Processing Fee

FINRA currently assesses an annual system processing fee for each of the member’s registered persons. Like the registration fees described above, this fee correlates to the third critical component of FINRA’s regulatory costs—the number and role of registered persons at a firm. Section 4(b)(7) of Schedule A to the FINRA By-Laws sets forth the system processing fee. Under the current fee structure, a flat \$70 fee applies to each registered person of a member. Many registered persons are registered

⁵⁷ Projected revenue from the proposed increased Late Disclosure Fees assumes approximately 53% late filings based on the historical average (2018-2023) and is based on other reasonably conservative assumptions using a variety of information points, including historical data and anticipated trends. See supra note 12.

with one or more securities regulators (i.e., with jurisdictions as a broker-dealer agent and with SROs as a representative or principal).⁵⁸ The median number of other SROs and jurisdictions with which each registered person of a member is registered, in addition to their FINRA registration, is 11, with an average of 20.

FINRA's costs and resources allocated to processing this information for members' registered persons depends, in part, on the number of securities regulators with which each registered person is registered (whether as a broker-dealer agent with one or more jurisdictions or as a representative or principal with one or more SROs). To account for this variability, FINRA proposes to replace the current flat fee structure with a tiered rate structure in 2026 as described below. In addition, FINRA proposes to increase the proposed tiers in 2028. These proposed changes are summarized as follows:

<u>System Processing Fee – Proposed Implementation</u>						
Number of securities regulators with which each registered person of a member is registered, excluding registration as an investment adviser representative	<u>2024</u> <u>(current)</u>	<u>2025</u> <u>(no change)</u>	<u>2026</u>	<u>2027</u> <u>(no change)</u>	<u>2028</u>	<u>2029</u> <u>(no change)</u>
1-5	\$70	\$70	\$70	\$70	\$100	\$100
6-20	\$70	\$70	\$95	\$95	\$125	\$125
21-40	\$70	\$70	\$110	\$110	\$140	\$140
41+	\$70	\$70	\$125	\$125	\$155	\$155

⁵⁸ The term broker-dealer agent (or AG) is the designation used in Form U4 to identify a person who has been approved to sell securities in a particular jurisdiction.

The fee would be calculated based on the total number of securities regulators with which each registered person of a member is registered (whether as a broker-dealer agent with one or more jurisdictions or as a representative or principal with one or more SROs). A registered person's registration as an investment adviser representative would not be considered.

FINRA believes this use-based fee will support FINRA's overall regulatory mission while reflecting the resources FINRA allocates to its securities licensing and registration operations for registered persons of members. Further, as noted above, this fee relates to the number and role of registered persons at a firm, which is one of the three critical components of FINRA's regulatory costs.

FINRA proposes to implement the proposed tiered rate structure in 2026. To allow members additional time to adjust and plan, FINRA proposes to defer implementation of proposed increases to this fee until 2028. When this proposed rule change, including implementation of the tiered structure and the proposed increase are fully implemented, it is designed to generate an additional \$31 million in annual revenue by 2029.

Qualification Examination Fees

Like registration fees, qualification examination fees are registered person-level fees that, while use-based, also correlate to the third critical component of FINRA's regulatory costs—the number and role of registered persons at a firm. Section 4(c) of Schedule A to the FINRA By-Laws sets forth the fees associated with the qualification examinations that FINRA administers. Persons engaged in the investment banking or securities business of a FINRA member who function as principals or representatives are

required to register with FINRA in each category of registration appropriate to their functions. Such individuals must pass an appropriate qualification examination or obtain a waiver before their registration can become effective. These qualification examinations cover a broad range of subjects regarding financial markets and products, individual responsibilities, securities industry rules, and regulatory structure.

FINRA develops, maintains, and delivers all qualification examinations for individuals who are registered or seeking registration with FINRA.⁵⁹ FINRA last increased its examination fees between 2022 and 2024.⁶⁰ FINRA is proposing to increase its examination fees in 2026 as follows:

<u>Qualification Examination Fees – Proposed Implementation</u>						
<u>Examination Number and Name</u>	<u>2024 (current)</u>	<u>2025 (no change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Securities Industry Essentials (SIE) Examination	\$80	\$80	\$100	\$100	\$100	\$100
Series 4: Registered Options Principal Examination	\$155	\$155	\$200	\$200	\$200	\$200
Series 6: Investment Company Products and Variable Contracts Representative Examination	\$75	\$75	\$100	\$100	\$100	\$100
Series 7: General Securities Representative Examination	\$300	\$300	\$395	\$395	\$395	\$395

⁵⁹ FINRA also administers and delivers examinations sponsored (i.e., developed) by the Municipal Securities Rulemaking Board (“MSRB”) and other SROs, the North American Securities Administrators Association, and the Federal Deposit Insurance Corporation. The fees charged for these examinations are set according to contracts with the examination sponsors, and FINRA is not proposing any changes to fees associated with those examinations at this time.

⁶⁰ See Order Approving SR-FINRA-2020-032, supra note 3, 85 FR 66592.

Series 9: General Securities Sales Supervisor Examination – Options Module	\$130	\$130	\$175	\$175	\$175	\$175
Series 10: General Securities Sales Supervisor Examination – General Module	\$175	\$175	\$235	\$235	\$235	\$235
Series 14: Compliance Official Examination	\$350	\$350	\$450	\$450	\$450	\$450
Series 16: Supervisory Analyst Examination	\$245	\$245	\$325	\$325	\$325	\$325
Series 22: Direct Participation Programs Representative Examination	\$60	\$60	\$100	\$100	\$100	\$100
Series 23: General Securities Principal Examination – Sales Supervisor Module	\$105	\$105	\$135	\$135	\$135	\$135
Series 24: General Securities Principal Examination	\$175	\$175	\$235	\$235	\$235	\$235
Series 26: Investment Company Products and Variable Contracts Principal Examination	\$150	\$150	\$200	\$200	\$200	\$200
Series 27: Financial and Operations Principal Examination	\$175	\$175	\$235	\$235	\$235	\$235
Series 28: Introducing Broker-Dealer Financial and Operations Principal Examination	\$150	\$150	\$195	\$195	\$195	\$195
Series 39: Direct Participation Programs Principal Examination	\$100	\$100	\$200	\$200	\$200	\$200
Series 57: Securities Trader Examination	\$80	\$80	\$105	\$105	\$105	\$105
Series 79: Investment Banking Representative Examination	\$300	\$300	\$395	\$395	\$395	\$395
Series 82: Private Securities Offering Representative Examination	\$60	\$60	\$100	\$100	\$100	\$100

Series 86: Research Analyst Examination -- Analysis	\$225	\$225	\$295	\$295	\$295	\$295
Series 87: Research Analyst Examination -- Regulatory	\$150	\$150	\$195	\$195	\$195	\$195
Series 99: Operations Professional Examination	\$60	\$60	\$100	\$100	\$100	\$100

FINRA is proposing a one-time fee increase across examinations in 2026 designed to generate an additional \$14 million in revenue across all examinations by 2029. In addition, FINRA has determined the amount of each examination fee increase based on the frequency with which the examination is administered, as well as the average fee per hour of examination length. Examinations that are administered more frequently or are longer in duration typically require more effort and cost to develop, maintain, and update. As a result, FINRA is generally proposing greater increases for those examinations, and smaller increases for others to preserve the broad and equitable distribution of proposed fee increases, as discussed throughout this filing.

Continuing Education Regulatory Element Fee

Continuing education fees are also registered person-level fees that, while use-based, correlate to the third critical component of FINRA's regulatory costs—the number and role of registered persons at a firm. In conjunction with other SROs and the Securities Industry/Regulatory Council on Continuing Education, FINRA administers the continuing education (CE) program for the securities industry.⁶¹ The Regulatory Element of the CE program provides training on significant rule changes and other regulatory

⁶¹ See FINRA Rule 1240.

developments relevant to each registration category. Registered persons must complete the Regulatory Element annually by December 31 for each registration that they hold.⁶²

Section 4(f) of Schedule A to the FINRA By-Laws sets forth the fees associated with the Regulatory Element requirement. FINRA has not increased the fee for the web-based delivery of the Regulatory Element since it was established in 2015.⁶³ FINRA is proposing to increase the Regulatory Element fee in 2026 as follows:

<u>Continuing Education Fee – Proposed Implementation</u>						
<u>Fee</u>	<u>2024</u> <u>(Current)</u>	<u>2025</u> <u>(No</u> <u>Change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Continuing Education	\$18	\$18	\$25	\$25	\$25	\$25

When the proposed regulatory element fee rate is fully implemented, it is designed to generate an additional \$4 million in annual revenue by 2029.

Select Use-Based Fees

Corporate Financing Private Placement Review Fee

⁶² See FINRA Rule 1240; see also Securities Exchange Act Release No. 93097 (September 21, 2021), 86 FR 53358 (September 27, 2021) (Order Approving File No. SR-FINRA-2021-015).

⁶³ See Securities Exchange Act Release No. 75581 (July 31, 2015), 80 FR 47018 (August 6, 2015) (Order Approving File No. SR-FINRA-2015-015). After FINRA adopted amendments to require registered persons to complete the Regulatory Element of CE annually rather than every three years, FINRA revised the Regulatory Element fee from a \$55 fee paid once every three years, to an \$18 fee paid annually. See Securities Exchange Act Release No. 93928 (January 7, 2022), 87 FR 2193, 2194 (January 13, 2022) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2021-034). Thus, the Regulatory Element fee has not substantially changed since 2015.

FINRA Rule 5122 (Private Placements of Securities Issued by Members) imposes requirements regarding disclosure, filing, and use of offering proceeds for members that sell a private placement of securities issued by a member or a control entity, subject to various exemptions. Pursuant to FINRA Rule 5122, members that offer or sell their own securities or those of a control entity must file with FINRA’s Corporate Financing Department (“Corporate Financing”) a private placement memorandum, term sheet or other offering document and any retail communication that promotes or recommends the member private offering at or prior to the first time the documents are provided to any prospective investor.

Its companion rule, FINRA Rule 5123 (Private Placement of Securities), requires members that sell any other type of private placement to file with Corporate Financing a copy of any private placement memorandum, term sheet or other offering document, and any retail communication that promotes or recommends the private placement. Such filing must occur within 15 calendar days of the first sale, subject to various exemptions.

FINRA has historically performed the review of such filings at no cost since the program was created approximately 15 years ago.⁶⁴ This program requires substantial resources, and the volume of filings has increased significantly in recent years.⁶⁵ FINRA

⁶⁴ FINRA Rule 5122 became effective on June 17, 2009; FINRA Rule 5123 became effective on December 3, 2012.

⁶⁵ See Regulatory Notice 23-08 (May 2023) (“In recent years, the unregistered offering market outpaced the public market. . . . In 2021, for example, members submitted over 3,800 unique filings for private placements pursuant to FINRA Rules 5122 and 5123, which require filings for private placements generally sold to individuals, in comparison to roughly 2,000 submissions in 2013.”).

thus proposes to establish the following fees related to private placement review in July 2025 as follows:

<u>Corporate Financing Private Placement Review Fee – Proposed Implementation</u>						
<u>Private Placements (Offerings >\$25M)</u>	<u>2024 (Current)</u>	<u>2025 (Effective 7/1/25)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Flat Fee	\$0	\$300	\$300	\$300	\$300	\$300
% of Offering	0%	0.008%	0.008%	0.008%	0.008%	0.008%
Offering Cap	\$0	\$500 million	\$500 million	\$500 million	\$500 million	\$500 million

The proposed fee is designed to be similar to the current fee for public offering reviews. Like the public offering review fee, this proposed fee would consist of both a flat fee and a percentage of the maximum offering proceeds. However, to reduce the impact on smaller issuers and broker-dealers, FINRA proposes to apply this fee only to private placement offerings of greater than \$25 million and to cap the fee at \$40,300 (0.008% of \$500,000,000 offering + \$300 flat fee). In general, FINRA believes that such fees would be paid for by, or passed through to, issuers.⁶⁶ This proposed new use-based fee is structured to take into account associated types of costs, including the substantial resources such reviews require.⁶⁷ When the proposed new fee for private placement

⁶⁶ FINRA's belief is informed by its experience with the public offering fee, described below, and based on discussions with FINRA advisory committees and other industry participants.

⁶⁷ As discussed above, when applying use-based fees, FINRA takes into account direct costs for the program, indirect costs for the program, and a contribution to FINRA's overall regulatory operations. See supra note 4 and accompanying text.

review is fully implemented, it is designed to generate \$6 million in annual revenue by 2029.

Corporate Financing Public Offering Review Fee

Corporate Financing reviews the underwriting terms and arrangements of proposed public offerings of securities for compliance with the requirements of FINRA Rule 5110 (Corporate Financing Rule—Underwriting Terms and Arrangements). Pursuant to Rule 5110, no member firm or person associated with a member firm may participate in a public offering subject to the rule, or to FINRA Rules 5121 (Public Offerings of Securities With Conflicts of Interest) and 2310 (Direct Participation Programs), unless the documents and information specified in the rule have been filed with and reviewed by Corporate Financing. The documents Corporate Financing reviews include registration statements, underwriting agreements, engagement letters and other relevant supporting documentation for public offerings. Corporate Financing’s review is complementary to the SEC’s registration process, which covers a larger set of filings than FINRA’s program.⁶⁸

Section 7 of Schedule A to the FINRA By-Laws sets forth the fees associated with filing documents pursuant to the Corporate Financing Rule. It currently provides for a flat fee of \$500 plus .015% of the proposed maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), with a cap of

⁶⁸ The SEC’s current filing fee rate for filings made pursuant to Sections 6(b) of the Securities Act of 1933 and Sections 13(e) and 14(g) of the Exchange Act is \$147.60 per \$1,000,000. See <https://www.sec.gov/edgar/filer/filing-fees/filing-fee-rate>.

\$225,500; or a fee of \$225,500 for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer (“WKSI”) as defined in Securities Act Rule 405. The fee associated with any amendment or other change to the documents initially filed with Corporate Financing is also subject to the current \$225,500 cap. FINRA has not raised the fee cap since 2012.⁶⁹

FINRA is proposing to increase and modify the fee cap beginning in July 2025 as follows:

<u>Corporate Financing Public Offering Review Fee Cap – Proposed Implementation</u>						
<u>IPO</u>	<u>2024</u> <u>(Current)</u>	<u>2025</u> <u>(Effective</u> <u>7/1/25)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Non-WKSI	\$225,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000
WKSI	\$225,000	\$270,000	\$324,000	\$389,000	\$467,000	\$560,000

This proposed rule change would raise the fee cap to \$1,125,000, which would account for the significant growth in the size of offerings since the cap was last raised in 2012. However, for WKSI, the cap would be raised to \$560,000 over a period of five years. FINRA notes that raising the caps would also create more consistency with the SEC IPO review fee, which has no cap.⁷⁰ FINRA projects that increasing the cap as proposed would capture 81% of the incremental revenues if there were no cap while bounding the impact on WKSI whose offerings tend to be less resource intensive for Corporate Financing to review. FINRA believes such fees are and would continue to be

⁶⁹ See Securities Exchange Act Release No. 67241 (June 22, 2012), 77 FR 38698 (June 28, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2012-029); see also Regulatory Notice 12-32 (June 2012).

⁷⁰ See supra note 68.

paid for by, or passed through to, issuers.⁷¹ When the proposed fee increase is fully implemented, it is designed to generate an additional \$31 million in annual revenue by 2029.⁷²

Advertising Regulation Review Fee

One way that FINRA protects investors is by having its Advertising Regulation Department review specified broker-dealers' communications for compliance with FINRA's communications with the public rules, and similar rules of⁷³ the SEC, MSRB and Securities Investor Protection Corporation. FINRA rules require that member communications be based on principles of fair dealing and good faith, be fair and balanced, and provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry or service. Among other things, FINRA rules prohibit member firm communications from including false, exaggerated, unwarranted or misleading statements or claims.

Section 13 of Schedule A to the FINRA By-Laws sets forth the fees associated with review of communications filed with FINRA. Despite rising costs to administer the Advertising Regulation Department review program, FINRA has not increased these fees

⁷¹ See supra note 66.

⁷² The proposed rule change would remove the language "on an automatically effective Form S-3 or F-3 registration statement" because WKSIs may use other registration forms. See, e.g., Securities Offering Reform for Closed-End Investment Companies, Investment Company Act Release No. 33836 (April 8, 2020), 85 FR 33290 (June 1, 2020).

⁷³ See generally FINRA Rule 2200 Series. FINRA also will review communications filed voluntarily.

since 2012.⁷⁴ FINRA is proposing an increase to the regular review charge in 2025 as follows:

<u>Advertising Regulation Review – Proposed Implementation</u>						
<u>Fee</u>	<u>2024</u> <u>(Current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Regular Review Charge (non-expedited)	\$125	\$300	\$300	\$300	\$300	\$300

When the proposed fee increase is fully implemented, it is designed to generate an additional \$11 million in annual revenue by 2029.⁷⁵ Under the proposed rule change, the \$600 expedited fee would not change.

Dispute Resolution Services Arbitration Fees

DRS operates the largest securities arbitration forum in the United States, to assist in the resolution of disputes involving customers, members and associated persons. As discussed in turn below, FINRA proposes to raise the (1) hearing session fees, (2) filing fees, (3) member surcharge, and (4) member process fee, as set forth in the Code of Arbitration Procedure for Customer Disputes (“Customer Code”) and Code of Arbitration Procedure for Industry Disputes (“Industry Code”) (together, the “Codes”).⁷⁶

⁷⁴ See Securities Exchange Act Release No. 67239 (June 22, 2012), 77 FR 38692 (June 28, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2012-028).

⁷⁵ FINRA currently charges a \$10 fee for the review of each printed page or webpage in excess of 10 pages, and for each minute of tape reviewed in excess of 10 minutes of video or audio media. This would not change under the proposed rule change.

⁷⁶ The Customer Code is the FINRA Rule 12000 Series; the Industry Code is the FINRA Rule 13000 Series. The proposed fee increases described, below, would be implemented in both Codes.

FINRA believes that the cost of arbitration should be borne by the users of the forum, without imposing a significant barrier to public customers who bring arbitration claims to the forum. Thus, the current DRS arbitration fees are designed to be borne 85 percent by members and 15 percent by customers.⁷⁷ The proposed rule change would maintain that pricing structure. It would also maintain a sliding scale fee structure in which the member surcharge and process fees increase across the board, while the hearing session fees and filing fees increase more for higher value claims. Taken together, the proposed increase in DRS' arbitration fees would aim to partially recover increasing costs to operate the forum, without placing an undue burden on users of the forum, particularly customers or claimants with small claims. When the proposed DRS arbitration fee increases are fully implemented, they are designed to generate an additional \$10 million in annual revenue by 2029.

Hearing Session Fees

Under FINRA Rules 12902 and 13902, hearing session fees are charged for each hearing session based on the amount in dispute. In the award, the panel determines the amount of each hearing session fee that each party must pay. The arbitrators may apportion the fees in any manner, including assessing the entire amount against one party.⁷⁸

FINRA proposes to raise hearing session fees in 2025 as follows:

⁷⁷ See Securities Exchange Act Release No. 90227 (October 20, 2020), 85 FR 67794 (October 26, 2020) (Notice of Filing File No. SR-FINRA-2020-035).

⁷⁸ See FINRA Rules 12902(a)(1) and 13902(a)(1).

<u>Hearing Session Fees – Proposed Implementation</u>				
	<u>2024 (current)</u>		<u>2025-2029</u>	
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>Hearing Session w/ One Arbitrator</u>	<u>Hearing Session w/ Three Arbitrators</u>	<u>Hearing Session w/ One Arbitrator</u>	<u>Hearing Session w/ Three Arbitrators</u>
Up to \$2,500	\$50	N/A	\$50	N/A
\$2,500.01 to \$5,000	\$125	N/A	\$125	N/A
\$5,000.01 to \$10,000	\$250	N/A	\$250	N/A
\$10,000.01 to \$25,000	\$450	N/A	\$450	N/A
\$25,000.01 to \$50,000	\$450	\$600	\$450	\$600
\$50,000.01 to \$100,000	\$450	\$750	\$450	\$750
\$100,000.01 to \$500,000	\$450	\$1,125	\$675	\$1,690
\$500,000.01 to \$1,000,000	\$450	\$1,325	\$675	\$1,990
\$1,000,000.01 to \$5,000,000	\$450	\$1,435	\$675	\$2,160
Over \$5,000,000	\$450	\$1,575	\$675	\$2,370
Non-Monetary / Not Specified	\$450	\$1,150	\$675	\$1,725

To minimize the impact of the proposed rule change on customers or claimants with small claims, the proposed fee increase would only apply to claims of more than \$100,000 and claims for non-monetary or unspecified damages. The tiered structure of this fee would not change under the proposed rule change.

FINRA notes the hearing session fee may not be assessed under certain circumstances. For example, if the parties timely settle the arbitration, the parties will not be assessed hearing session fees.⁷⁹ During settlement negotiations, parties have the

⁷⁹ See FINRA Rules 12701 and 13701.

opportunity to determine how to share any hearing session fees, if hearings are held.⁸⁰

For cases that result in an award, the panel has discretion to assess hearing session fees as part of the award,⁸¹ which allows them to consider numerous factors to determine each party’s appropriate share and assign the costs accordingly. The proposed rule change would not change a party’s ability to settle or arbitrators’ discretion to assess the hearing session fees.

Filing Fees

Filing Fees Paid by Customers, Associated Persons or Other Non-Members

Filing fees are due when a claim is filed. FINRA Rule 12900(a) sets forth the filing fee schedule for customers, associated persons and other non-members who file a claim, counterclaim, cross claim or third party claim in a customer dispute. FINRA Rule 13900(a) sets forth the filing fee schedule for associated persons who file a claim, counterclaim, cross claim or third party claim in an industry dispute. The filing fee is based on the claim amount or type of damages requested.

FINRA proposes to raise filing fees in 2025 as follows:

<u>Filing Fee (Customers, Associated Persons, and other Non-Members) – Proposed Implementation</u>						
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>2024 (current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$.01 to \$1,000	\$50	\$50	\$50	\$50	\$50	\$50
\$1,000.01 to \$2,500	\$75	\$75	\$75	\$75	\$75	\$75
\$2,500.01 to \$5,000	\$175	\$175	\$175	\$175	\$175	\$175

⁸⁰ See FINRA Rules 12701(b) and 13701(b).

⁸¹ See FINRA Rules 12902(a)(1) and 13902(a)(1).

\$10,000.01 to \$25,000	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050
\$25,000.01 to \$50,000	\$1,450	\$1,450	\$1,450	\$1,450	\$1,450	\$1,450
\$50,000.01 to \$100,000	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750
\$100,000.01 to \$500,000	\$2,125	\$2,660	\$2,660	\$2,660	\$2,660	\$2,660
\$500,000.01 to \$1,000,000	\$2,650	\$3,320	\$3,320	\$3,320	\$3,320	\$3,320
\$1,000,000.01 to \$5,000,000	\$3,550	\$4,440	\$4,440	\$4,440	\$4,440	\$4,440
Over \$5,000,000	\$4,200	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250
Non-Monetary/Not Specified	\$1,800	\$2,250	\$2,250	\$2,250	\$2,250	\$2,250

Partial Refund of Filing Fee

If a claim is settled or withdrawn more than 10 days before the date of the hearing on the merits, a party paying a filing fee will receive a partial refund of the filing fee in the amount specified under FINRA Rule 12900(c) for customer cases and FINRA Rule 13900(c) for industry cases. FINRA proposes to increase the partial filing fee refund in 2025 as follows:

<u>Partial Filing Fee Refund – Proposed Implementation</u>						
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>2024 (current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$.01 to \$1,000	\$25	\$25	\$25	\$25	\$25	\$25
\$1,000.01 to \$2,500	\$50	\$50	\$50	\$50	\$50	\$50
\$2,500.01 to \$5,000	\$125	\$125	\$125	\$125	\$125	\$125
\$5,000.01 to \$10,000	\$250	\$250	\$250	\$250	\$250	\$250
\$10,000.01 to \$25,000	\$300	\$300	\$300	\$300	\$300	\$300
\$25,000.01 to \$50,000	\$450	\$450	\$450	\$450	\$450	\$450
\$50,000.01 to \$100,000	\$750	\$750	\$750	\$750	\$750	\$750
\$100,000.01 to \$500,000	\$1,125	\$1,410	\$1,410	\$1,410	\$1,410	\$1,410
\$500,000.01 to \$1,000,000	\$1,300	\$1,625	\$1,625	\$1,625	\$1,625	\$1,625
\$1,000,000.01 to \$5,000,000	\$1,400	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750
Over \$5,000,000	\$1,500	\$1,875	\$1,875	\$1,875	\$1,875	\$1,875

Non-Monetary/Not specified	\$1,200	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
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Member Surcharge

FINRA assesses a surcharge against each member that (a) files a claim, counterclaim, cross claim or third party claim under the Codes; (b) is named as a respondent in a claim, counterclaim, cross claim, or third party claim filed and served under the Codes; or (c) employed, at the time the dispute arose, an associated person who is named as a respondent in a claim, counterclaim, cross claim, or third party claim filed and served under the Codes.

FINRA Rules 12901 and 13901 set forth the schedule of the member surcharge, which is assessed based on the amount of the claim, exclusive of interest and expenses. The member is assessed one surcharge per arbitration case.⁸² Member surcharges are intended to allocate the costs of administering the arbitration case to the firms that are involved in those cases. Thus, each member is assessed a member surcharge, based on the aggregate claim amount, when it is brought into the case, whether through a claim, counterclaim, cross claim or third party claim. The member surcharge is the responsibility of the member party and cannot be allocated to any other party (“non-allocable”).

FINRA proposes to increase the member surcharge in 2025 as follows:

<u>Member Surcharge – Proposed Implementation</u>						
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>2024 (current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$.01 to \$5,000	\$150	\$165	\$165	\$165	\$165	\$165

⁸² See FINRA Rules 12901(a)(6) and 13901(f).

\$5,000.01–\$10,000	\$325	\$360	\$360	\$360	\$360	\$360
\$10,000.01–\$25,000	\$450	\$495	\$495	\$495	\$495	\$495
\$25,000.01–\$50,000	\$750	\$975	\$975	\$975	\$975	\$975
\$50,000.01–\$100,000	\$1,100	\$1,430	\$1,430	\$1,430	\$1,430	\$1,430
\$100,000.01–\$250,000	\$1,700	\$2,210	\$2,210	\$2,210	\$2,210	\$2,210
\$250,000.01–\$500,000	\$2,025	\$2,640	\$2,640	\$2,640	\$2,640	\$2,640
\$500,000.01–\$1,000,000	\$2,625	\$3,420	\$3,420	\$3,420	\$3,420	\$3,420
\$1,000,000.01–\$5,000,000	\$3,200	\$4,800	\$4,800	\$4,800	\$4,800	\$4,800
\$5,000,000.01–\$10,000,000	\$3,850	\$5,775	\$5,775	\$5,775	\$5,775	\$5,775
Over \$10,000,000	\$4,325	\$6,490	\$6,490	\$6,490	\$6,490	\$6,490
Non-Monetary/Not Specified	\$2,000	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600

The member surcharge would remain non-allocable under the proposed rule change and, therefore, would not result in any additional costs to other parties to the arbitration, including customers.

Member Process Fee

Under the Codes, each member that is a party to an arbitration or employed an associated person who is a party to an arbitration in which more than \$25,000, exclusive of interest and expenses, is in dispute must pay a non-refundable process fee.⁸³

FINRA Rules 12903 and 13903 set forth the process fee schedule. FINRA assesses the member the applicable process fee when the parties are sent the arbitrator lists or notification of the hearing. Like the member surcharge, the process fee is non-allocable to other parties to the arbitration.⁸⁴

⁸³ See FINRA Rules 12903 and 13903. If a claim amount is \$25,000 or less, the member would not be assessed any process fees.

⁸⁴ See FINRA Rules 12903(d) and 13903(d). See also FINRA Rules 12701(b) and 13701(b).

FINRA proposes to increase the process fee in 2025 as follows:

<u>Member Process Fee – Proposed Implementation</u>						
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>2024 (current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$.01–\$25,000	\$0	\$0	\$0	\$0	\$0	\$0
\$25,000.01–\$50,000	\$1,750	\$2,275	\$2,275	\$2,275	\$2,275	\$2,275
\$50,000.01–\$100,000	\$2,250	\$2,925	\$2,925	\$2,925	\$2,925	\$2,925
\$100,000.01–\$250,000	\$3,250	\$4,225	\$4,225	\$4,225	\$4,225	\$4,225
\$250,000.01–\$500,000	\$3,875	\$5,040	\$5,040	\$5,040	\$5,040	\$5,040
\$500,000.01– \$1,000,000	\$5,225	\$6,800	\$6,800	\$6,800	\$6,800	\$6,800
\$1,000,000.01– \$5,000,000	\$6,375	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570
\$5,000,000.01– \$10,000,000	\$7,050	\$10,575	\$10,575	\$10,575	\$10,575	\$10,575
Over \$10,000,000	\$7,300	\$10,950	\$10,950	\$10,950	\$10,950	\$10,950
Non-Monetary/Not Specified	\$3,850	\$5,005	\$5,005	\$5,005	\$5,005	\$5,005

The member process fee would remain non-allocable under the proposed rule change and, therefore, would not result in any additional costs to other parties to the arbitration, including customers.

Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time Fee

Section 8 of Schedule A to the FINRA By-Laws governs the service charge for each extension of time request pursuant to Sections 220.4(c) and 220.8(d) of Regulation T⁸⁵ of the Board of Governors of the Federal Reserve System (“Regulation T”) and

⁸⁵ 12 CFR 220.4(c) and 220.8(d), respectively.

Exchange Act Rule 15c3-3(n).⁸⁶ FINRA has not increased this fee since 2006.⁸⁷ FINRA proposes to raise the fee in 2025 as follows:

<u>Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time – Proposed Implementation</u>					
<u>2024</u> <u>(Current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$4 per request	\$8 per request	\$8 per request	\$8 per request	\$8 per request	\$8 per request

Based on current annual extension filing volumes, the current fee does not cover the estimated personnel and technology costs necessary to process extension requests. The proposal to increase the fee would recover some of those costs. When the proposed service charge for Regulation T and Exchange Act Rule 15c3-3(n) requests for extension of time increases are fully implemented, they are designed to generate an additional \$640,000 in annual revenue by 2029.

Further, to streamline Section 8, FINRA proposes to eliminate current paragraph (a), which is not needed in light of the specific fee amount language set forth in paragraph (b) of that Section. The proposed rule change would also make minor technical corrections. As such, the proposed rule change would amend Section 8 to read: “The service charge for processing each initial extension of time request and for all subsequent extension of time requests (1) involving the same transaction under

⁸⁶ 17 CFR 240.15c3-3.

⁸⁷ See Securities Exchange Act Release No. 53982 (June 14, 2006), 71 FR 35720 (June 21, 2006) (Notice of Filing and Immediate Effectiveness of File No. SR-NASD-2006-063). See also Notice to Members 06-30 (June 2006).

Regulation T or (2) involving an extension of time previously granted pursuant to SEA Rule 15c3-3(n) shall be \$8.00 per request.”

Proposed Conforming Changes to Select Funding Portal Member Fees

Section 15 of Schedule A to the FINRA By-Laws sets forth the fees that govern funding portals that are FINRA members. These fees became effective in 2016. At the time they were proposed, the funding portal fees related to eligibility proceedings and fingerprint processing, among others, were “identical to those charged to broker-dealer members.”⁸⁸ Though amendments to the fees charged to broker-dealer members related to eligibility proceedings and fingerprint processing have since occurred, those same fees for funding portal members have not been amended, and thus, are no longer aligned.

This proposed rule change would amend Section 15(f)(1) and Section 15(g) to conform the fees for members that are funding portals with the same fees that are charged to broker-dealer members. Specifically, in 2025, the proposed rule change would raise the funding portal member fee for filing an application to initiate eligibility proceedings from \$1,500 to \$5,000 to conform with the same fee that currently applies to broker-dealer members. Also in 2025, the proposed rule change would raise the funding portal member fee for fingerprints submitted electronically from \$15 to \$20 to conform with the same fee that currently applies to broker-dealer members.⁸⁹

As noted in Item 2 of this filing, FINRA has filed the proposed rule change for immediate effectiveness. Implementation of the proposed rule change will be phased in

⁸⁸ See Securities Exchange Act Release No. 76238 (October 22, 2015), 80 FR 66342 (October 28, 2015) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2015-041).

⁸⁹ See supra note 51.

gradually over a five-year period beginning on January 1, 2025, with full implementation of all proposed fee changes by 2029.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(5) of the Act,⁹⁰ which requires, among other things, that FINRA rules provide for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system that FINRA operates or controls. FINRA further believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that FINRA rules are not designed to permit unfair discrimination between customers, issuers, brokers or dealers.⁹¹

Reasonableness of the Proposed Fees

As discussed above, FINRA's longstanding approach to funding employs a variety of fees designed to meet FINRA's overall costs. As a not-for-profit SRO with a diverse membership, FINRA designs its mix of fees to seek recovery of its overall regulatory costs in a manner that is fair, reasonable, and equitably allocated among FINRA's members and users of FINRA's services. As FINRA has explained in the past, it is not feasible to associate a direct affiliated revenue stream for each of its programs (for example, FINRA collects no revenues in connection with its examinations of members), and thus numerous operations and services must be funded by other revenue sources, which include both core regulatory fees and other use-based fees. FINRA

⁹⁰ 15 U.S.C. 78o-3(b)(5).

⁹¹ 15 U.S.C. 78o-3(b)(6).

continues to believe that its overall Commission-approved cost-based pricing structure is reasonable, achieves general equity across its membership, and correlates fees with those firm components that drive FINRA's regulatory costs to the extent feasible.

The reasonableness of this proposal is reinforced by three key cost discipline mechanisms: oversight, transparency, and rebates.

First, FINRA's funding and operations are subject to several layers of oversight, including by the FINRA Board of Governors⁹² and the Commission. As discussed in FINRA's 2024 annual budget summary, FINRA's efforts to manage its expenses responsibly while appropriately funding its mission includes Board oversight of its annual budget, compensation, and capital initiatives. This oversight is spearheaded by key Board committees (such as its Finance, Operations and Technology Committee), and includes requirements for Board or relevant Committee approval with respect to various financial matters, such as the annual budget, the allocation and use of fine monies, the incurring of any expenses above certain pre-established thresholds, the amount of any annual merit or incentive compensation, and the compensation of certain key employees. The Board also relies on expert external consultants where appropriate. Notably, this Board oversight complements various staff level controls over routine costs, including expense policies that are enforced with systemic checks and escalating management approval requirements for expense requests, with the effectiveness of these policies further subject to review by FINRA's Internal Audit Department.

⁹² The FINRA Board of Governors is composed of a mix of public and industry representatives and uses its diverse expertise to oversee management in the administration of FINRA's affairs and the promotion of FINRA's welfare, objectives, and its public service mission to protect investors and uphold the integrity of markets.

FINRA is also extensively supervised by the Commission throughout the year. The SEC’s Division of Examinations maintains dedicated staff as part of its FINRA and Securities Industry Oversight (“FSIO”) program who are devoted exclusively to overseeing FINRA and the MSRB—the two not-for-profit regulatory SROs—including with respect to FINRA’s overall financial management and the adequacy of the resources devoted to its regulatory programs. In addition, rules or fees adopted by FINRA are subject to review by the Commission’s Division of Trading and Markets. The Commission’s oversight of FINRA, in turn, is itself subject to Congressional oversight and evaluation by the United States Government Accountability Office (“GAO”) every three years. By statute, the GAO evaluates ten specific aspects of the Commission’s oversight of FINRA, including FINRA governance, executive compensation, and the use of funding to support FINRA’s mission, including the methods and sufficiency of funding, how FINRA invests funds pending use, and the impact of these aspects on FINRA’s regulatory enforcement. The GAO reports the results of its evaluation to Congress.⁹³

Second, FINRA’s commitment to reasonable funding in support of its mission is further reinforced by the transparency it has committed to provide on an ongoing basis—pursuant to its Guiding Principles—regarding its financial performance. Each year, FINRA publishes an extensive Annual Financial Report regarding its operations, prepared in accordance with GAAP. In addition, FINRA publishes annual reports on its budget and its use of fine monies. FINRA’s Board also reviews and affirms its Financial

⁹³ See GAO Report to Congressional Committees (November 2023), available at <https://www.gao.gov/assets/d24106578.pdf>.

Guiding Principles bi-annually and re-publishes these as well. FINRA also files with the IRS the Form 990 mandated for all not-for-profit organizations. Collectively, these reports provide extensive and comprehensive information regarding FINRA's policies and operations with respect to its budgets, revenues, costs, financial reserves, use of fine monies, capital and strategic initiatives, and compensation of senior executives, among other information. FINRA maintains a dedicated webpage that consolidates its annual reports in a readily accessible place.⁹⁴

Third, as a not-for-profit organization, FINRA is committed to aligning its revenues with its mission-driven costs. If revenues exceed costs on a sustained basis, and FINRA's reserves are sustained appropriately, FINRA will assess the merit of providing rebates. This approach helps ensure that the revenues from these proposed fee changes will not exceed FINRA's reasonable regulatory costs and reserve needs on an ongoing basis. As discussed above, FINRA will continue to be guided by its historical approach to rebates if its revenue in future years exceeds its costs and reserves needs by a material amount.

Together, these mechanisms help ensure the ongoing reasonableness of FINRA's costs and the level of fees assessed to support those costs. The effectiveness of these mechanisms is demonstrated by FINRA's experience over the last decade, during which, FINRA was able to undertake expanding regulatory responsibilities while limiting cumulative cost growth to a rate that was lower than inflation and cost growth experienced by members.

⁹⁴ See FINRA Financial Reports and Policies, available at <https://www.finra.org/about/annual-reports>.

The Proposed Fees are Equitable and Not Unfairly Discriminatory

As discussed throughout this filing, this proposed rule change is designed to increase the fees FINRA relies on to fund its regulatory mission in a manner that preserves an equitable and not unfairly discriminatory fee allocation among FINRA members and users of FINRA services. Notably, through this proposed rule change, FINRA is seeking to preserve the carefully calibrated mix of core regulatory fees and select use-based fees to fund its regulatory mission that the Commission previously approved as equitably allocated among its large and diverse membership. In addition, based on feedback from members of FINRA's advisory committees and other industry consultations that emphasized the importance of advance notice and clarity of any fee increases for budget planning, implementation of the proposed rule change would take place over several years, with some fees going into effect in 2025, others implemented in 2026 or later, and some phased in over several years between 2025 and 2029.

The fees included in this proposed rule change were selected to address the impending funding deficit by raising fees in a way that maintains proportionality across members with minimal distributional impacts across firm sizes and business models. FINRA projects an aggregate dispersion level for the rate of increase realized across members to be 2.3% once the proposal is fully implemented.⁹⁵ In other words, in choosing among options according to the principles described above, FINRA also sought to have minimal impact on the distribution of fee rate changes across members by firm size and business model, as measured by the standard deviation of the rate of the fee increases. Given this limited distributional impact, FINRA believes the proposed rule

⁹⁵ See generally Exhibit 3, Charts 7 through 10.

change will preserve the same equitable and not unfairly discriminatory fee allocation that has long served as the foundation for FINRA's funding model and has been approved by the Commission.

4. 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.

Economic Impact Assessment

FINRA has undertaken an economic impact assessment, as set forth below, to analyze the regulatory need for the proposed rule change, its potential economic impacts, including anticipated costs, benefits, and distributional and competitive effects, relative to the current baseline, and the alternatives FINRA considered in assessing how best to meet FINRA's regulatory objectives.

Regulatory Need

Based on an analysis of its funding sources, anticipated costs, and expanding responsibilities, FINRA has determined that it will require additional revenues to continue to effectively meet its regulatory obligations. FINRA anticipates that the absence of stable funding at the levels proposed here may have material negative impacts on its regulatory program, weakening investor protections. Specifically, FINRA may be unable to maintain its current capabilities at their current standards or respond to a significant market event requiring unanticipated funding. In the absence of a fee increase, eventually FINRA may not be able to hire and retain staff with the appropriate expertise to conduct its regulatory activities (including examinations, market surveillance

and investigations, enforcement, regulatory policy and rulemaking, qualification examinations and credentialing, and providing transparency for markets, members and registered persons), or make the necessary investments in the technology needed to support these activities.

Economic Baseline

The baseline for this proposed rule change includes FINRA's historical costs and revenues, the current schedule of fees assessed by FINRA, and the direct and indirect allocation of those fees across members, associated persons, third parties, and investors. The baseline also encompasses the scope of activities conducted by FINRA to meet its mission, and FINRA's current ability to address changing market activities and conditions through investment in staff, infrastructure, and technology.

As a not-for-profit organization, FINRA targets break-even cash flows that allow it to appropriately fund its regulatory mission, and maintains a reasonable financial reserve necessary to meet unanticipated circumstances. Between 2013 and 2023, FINRA's cost increase CAGR was 3.5%, or 41% over the entire period.⁹⁶ Over the same period, members' reported cost increase CAGR was 8.7%, or a total increase of 129%.⁹⁷

At the same time, capital markets have grown in size, complexity, and retail investor participation, in part, through an increase in the number of self-directed accounts and rapid technological changes. Partly in response to these changes, FINRA's regulatory responsibilities have, and continue to, grow as described above. There have

⁹⁶ Based on figures drawn from FINRA's public Annual Financial Reports, which include FINRA subsidiaries.

⁹⁷ Based on FOCUS reports.

been substantial increases in equity and options trading volume (respectively, over 70% and 160% increases since 2013) and in corporate and agency bond trading volume (over 230% increase since 2013). There has also been growth in the complexity of the securities markets (the number of registered national securities exchanges significantly increased since 2013, from 14 to 24⁹⁸) and trading of new and evolving products, such as security-based swaps and securities with crypto asset components, has increased. These changes have led to a more complex trading environment. This, in turn, has required enhancements to oversight by FINRA staff. In addition, as discussed above, FINRA has made substantial investments in its surveillance and examinations programs in response to new and amended SEC rules.

Over the past several years, FINRA has observed changes in the number of registered persons and members. Between 2013 and 2023, the number of registered persons was essentially unchanged (627,468 and 628,392, respectively).⁹⁹ In contrast, over the same period, the number of members decreased from 4,146 to 3,298, a decrease of approximately 20%.¹⁰⁰

FINRA believes that the number of registered persons remained fairly constant because persons from exiting members migrated to other members, requiring FINRA

⁹⁸ See <https://www.sec.gov/fast-answers/divisionsmarketregmrexcangeshtml>. Additional registered national securities exchanges may contribute to more complex order lifecycles and trade reporting scenarios.

⁹⁹ See Table 1.2.2 of the FINRA Industry Snapshot, available at <https://www.finra.org/media-center/reports-studies/2024-industry-snapshot>. As FINRA notes when it publishes industry snapshots, FINRA regularly updates historical data series due to data revisions by reporting firms.

¹⁰⁰ See Table 2.2.3 of the FINRA Industry Snapshot.

regulatory resources to shift accordingly. FINRA staff's quarterly reviews of departing firms find that on average about 75% of their associated persons remain registered after their firm exits the securities business, either by remaining with an affiliate firm or moving to a new firm. In the last quarter of 2023, the retention rate was closer to 90%. The difference in the decline in the number of members versus registered persons is also related to the fact that most exiting firms are small,¹⁰¹ such that their departure has relatively less impact on the total number of registered persons.

Despite its increased responsibilities and changes in FINRA's own oversight by the SEC, FINRA achieved relatively low expense growth through a variety of cost-saving mechanisms.¹⁰² Staffing generates the majority of FINRA's expenses and was relatively flat until recent years, commensurate with increases in FINRA's responsibilities. As discussed above, since 2013, FINRA's total compensation costs rose by 31% on a cumulative basis as compared with a 50% increase for the average U.S. financial services employee.¹⁰³ In aggregate, since 2013, FINRA's expenses have grown less rapidly than

¹⁰¹ FINRA By-laws define the size of a member firm by the number of associated registered representative as the following: small – 150 or fewer registered representatives; mid-size – 151 to 500 registered representatives; and large – more than 500 registered representatives. A subgroup of the small firms are known as micro firms, firms with 10 or fewer registered representatives.

¹⁰² As discussed above, cost savings have been accomplished in recent years through expense reduction initiatives, including conducting a comprehensive efficiency review of FINRA's core business lines; establishing a framework for improving measurement of FINRA's key objectives and results; voluntary retirement/incentive programs in 2020 and 2024; and strategic reductions in FINRA's corporate real estate footprint.

¹⁰³ See supra note 19.

those of members, with the ratio of member expenses to FINRA expenses gradually increasing over time. Chart 1, attached in Exhibit 3, presents these findings.¹⁰⁴

Over the period between 2013 and 2023, FINRA’s total regulatory and use-based fee CAGR was 3.9%. These revenues remained effectively flat from 2013 through 2019 due to a limited number of fee increases. A previously implemented fee increase was phased in between 2022 to 2024 and has resulted in increased levels of operating revenue. However, FINRA projects that increases in revenue will either remain flat or slightly decrease after 2024.

Chart 2 provides a view of actual revenues and expenses for 2013 to 2023 and anticipated revenue and expenses for 2024 to 2029 if no changes to the fee structure are made.¹⁰⁵ Chart 2 also includes historical and projected “excess reserves.” FINRA maintains a reserve fund as part of its funding framework, and excess reserves are reserves in excess of the minimum determined by the FINRA Board of Governors as appropriate, which is one year of expenditures.¹⁰⁶ FINRA has strategically relied on its reserves to help fund operating deficits in the past and will continue to strategically draw on its reserves where consistent with the Guiding Principles. Chart 2 illustrates, however,

¹⁰⁴ As with Chart 1, all of the charts discussed below are attached in Exhibit 3.

¹⁰⁵ The revenues and expenses presented in Chart 2 in terms of Cash Flow Sources and Cash Flow Uses—both historical and projected—do not include subsidiaries other than FINRA Regulation and FINRA Dispute Resolution, which was merged into FINRA Regulation at the end of 2015. Cash Flow Sources includes Operating Revenues, Investment Returns and Fines. Cash Flow Uses includes Operating Expenses and Capital Initiatives.

¹⁰⁶ See supra note 9.

that without a fee increase, FINRA is projected to exhaust excess reserves and deplete its reserve balance below minimum target levels in the coming years.

Although FINRA's revenues would remain near current levels without any changes in the fee structure, FINRA reasonably anticipates that its future expenses will continue to grow at a pace of 5.9% on average per year based on the compounding impact of annual wage inflation, technology costs, and future capital initiatives.¹⁰⁷ In this scenario, revenues would increasingly fall behind anticipated costs. While FINRA's reserves may continue to cover the shortfall in the near-term, the reserves will reach their minimum prudent level of one year of operating costs within three to four years based on current projections if no corrective action is taken.

As described above, FINRA funds its regulatory and other related activities through a combination of regulatory fees and use-based fees. GIA, TAF, PA and Branch Office Fees, taken together, represent approximately 69% of 2023 revenues, while use-

¹⁰⁷ As discussed above, FINRA has made reasonably conservative assumptions using a variety of information points, including historical data and anticipated trends. See supra note 12. This estimate is based on the following assumptions for FINRA and excludes the independent budgeting of all of FINRA's active subsidiaries other than FINRA Regulation—specifically, FINRA CAT, LLC and the FINRA Investor Education Foundation: (1) wage inflation at an annual rate between 4% and 6%, consistent with the financial industry over the last five years; (2) technology expense growth: capital investments seeking long-term efficiency gains for both FINRA and the industry, rising cloud hosting costs driven by volume increases, maintaining technology labor competitiveness, and ongoing disaster recovery and cybersecurity requirements; and (3) rise in regulatory efforts and associated costs for FINRA's regulatory programs.

based fees represent approximately 31% of 2023 revenues. The specific fees that would be increased under this proposal represent approximately 89% of 2023 revenues.¹⁰⁸

All core regulatory and use-based fees mentioned above are assessed directly to members. FINRA understands that many members shift at least some of the fees to other parties. For instance, it is regular practice among clearing and trading firms to “pass-through” the TAF to the underlying firm executing the trade. Further, FINRA understands that the executing firms commonly pass the TAF directly on to their customers submitting orders. Typically, TAF fees are reflected on the confirmation statement received by customers.¹⁰⁹

Similarly, FINRA understands that many firms regularly pass-through to registered persons assessments such as the PA, registration fees, and qualification examination fees. FINRA understands that there may be differences in this practice across firms depending on each firm’s business model. Competitive markets for the provision of brokerage and related financial intermediation services, along with difficulty in allocating certain fees to specific transactions, can limit the extent to which these fees can be passed-through.

¹⁰⁸ Following the implementation of the proposed rule change, GIA, TAF, PA and Branch Office Fees, together, would represent approximately 72% of revenues, while use-based fees would represent approximately 28%.

¹⁰⁹ FINRA conducted a study of a sample of members, which included approximately 25 retail investor focused broker-dealers and approximately 15 institutional investor focused broker-dealers, to better understand practices of TAF pass through. The research found that the majority of the retail focused firms did pass through the TAF to their customers. FINRA does not know the full extent of this practice across all members.

Core regulatory fees are calibrated so that larger, more active and more geographically dispersed members are assessed higher fees, reflecting regulatory resource allocation. Likewise, the use-based fees that are part of core regulatory fees are designed to capture some of the costs associated with core regulatory activities in addition to the direct and indirect costs of the associated services. For example, FINRA believes it is appropriate that registration and qualification examination fees help defray the costs of regulating registered persons because members employing more persons require more regulatory effort on FINRA's part. This approach is consistent with a structure where the fees paid increase with the size of the firm's revenues (GIA) and the amount of trading activity it conducts (TAF). In addition, core regulatory fees tend to be correlated with member size and structure. As such, core regulatory fees are designed cohesively and comprehensively such that they should be evaluated in aggregate and not on a fee-by-fee or service-by-service basis.

The fee structure is also designed, purposefully, to account for diversity in firm size. Compliance and regulatory oversight naturally represent a larger relative cost to small firms. Because FINRA wants to prevent regulatory costs from either creating a barrier to entry for small firms, or over-burdening existing small firms, the current fee structure includes a level of cross-subsidization by larger firms.

FINRA believes that this practice supports two objectives. First, it is important that retail investors have access to diverse types of financial services intermediaries, including members of varying size. For example, some investors may prefer to engage registered persons associated with smaller firms. Second, the extent to which firms benefit from well-regulated markets is relative to firm size. Under well-regulated

markets, investors are more willing to trust financial intermediaries because they are confident that they are treated fairly in their access to securities markets and products. Greater participation in the financial markets by investors allows firms to grow larger and become more diversified, leading to cost savings and reduced risk through economies of scale and scope. The concentration in both retail and institutional investor activity at larger firms suggests that larger firms reap substantial benefits from strong regulation and should therefore provide a substantial portion of the fees that support this regulation. At the same time, the impact of widespread misconduct at a larger firm may impair investor confidence more broadly than similar misconduct at a smaller firm. This lends further support to the practice of assessing higher fees on larger firms.

Chart 3 presents the distribution in 2024 of FINRA's regulatory and use-based fee revenue and the proportion of FINRA's examination time, along with the proportion of firms and registered persons, by firm-size category as defined in the FINRA By-Laws.¹¹⁰ Small firms, including micro firms, account for 89% of the firms in the industry, 10% of total registered persons, 57% of FINRA's total firm examination time, and 12% of FINRA's revenues. Large firms, conversely, represent less than 5% of firms, over 80% of registered persons, 32% of FINRA's firm examination effort, and approximately 67% of FINRA's revenues. The remaining portions of firm examination time and revenues are attributable to mid-size firms.

¹¹⁰ The revenue in Charts 3-10 excludes Corporate Financing fees, which are generally passed through to issuers, and a portion of DRS fees that are paid directly by customers. See supra note 28. The revenue in these charts also excludes MAP fees, which are incurred irregularly. See also supra note 5 and accompanying text.

Chart 4 presents the same measures as in Chart 3 by the business model category. The categories of capital markets and retail firms account for 80% of the firms in the industry, 72% of total registered persons, 55% of FINRA's total examination time, and 33% of FINRA's regulatory and use-based fee revenues.¹¹¹ The category of diversified firms, including most of the largest firms, accounts for approximately 5% of firms in the industry, almost 25% of total registered persons, over 27% of FINRA's total examination time, and 44% of FINRA's revenues. The remaining portions are attributable to the category of trading firms and the category of clearing firms.

Economic Impact

FINRA's fee proposal is intended to ensure that FINRA can continue to meet its mission of promoting investor protection and market integrity in a manner that facilitates vibrant capital markets. This proposed rule change preserves FINRA's ability to be a robust and effective SRO, protecting investors from manipulation, exploitation, and other harms. Adequate funding allows FINRA to develop regulatory approaches that are effective and efficient, and to revise its rules through, among other ways, its robust retrospective review process. Through appropriate funding, FINRA will be better situated to adapt to changing markets, market behaviors, and expanding responsibilities. A stable and reliable funding model also permits members to better anticipate and plan for FINRA's fees. These benefits accrue to current and prospective investors, firms, issuers, and others participating in financial intermediation.

¹¹¹ See supra note 110. Here, business model represents the primary type of services provided by the member firm.

FINRA notes that academic literature has provided evidence of the linkage between strong regulation in securities markets and improved outcomes, including more trading, lower transaction costs, and greater investor participation in the markets.¹¹² Bruggemann, et al. [2018] study the impact of differences in state regulation on OTC stocks. They find that firms issuing in the OTC market subject to stricter regulation are more liquid and are subject to lower “crash risk.” Cazier, et al. [2023] examine the effect of the SEC’s initiative to prevent fraud in OTC markets by suspending inactive shell companies that could be targeted by market manipulators. The authors find that these suspensions are associated with fraud deterrence among other OTC firms operating within the same regulatory jurisdiction as the suspended firm. Silvers [2016] studies the impact of SEC enforcement actions against foreign cross-listed issuers. He shows evidence that other cross-listed issuers (not cited by the SEC) experienced positive returns, suggesting that increased regulatory attention increases valuation. Silvers [2020] and Lang et al. [2020] further show that cross-border cooperation between securities

¹¹² See, e.g., U. Bruggemann, A. Kaul, C. Leuz & I. Werner, The Twilight Zone: OTC Regulatory Regimes and Market Quality, 31(3) *The Review of Financial Studies*, 898-942 (2018); R. Cazier, J. Huang & F. Zhou, Regulatory Spillover Effects in OTC Markets, *Review of Accounting Studies*, 1-33 (2023); Roger Silvers, The Valuation Impact of SEC Enforcement Actions on Nontarget Foreign Firms, 54 (1) *Journal of Accounting Research*, 187-234 (2016); Roger Silvers, Cross-Border Cooperation between Securities Regulators, 69 (2-3) *Journal of Accounting and Economics*, 101301 (2020); M. Lang, M. Maffett, J. D. Omartian & R. Silvers, Regulatory Cooperation and Foreign Portfolio Investment, 138 (1) *Journal of Financial Economics* 138-158 (2020); H. Christensen, M. Maffett & L. Vollon, Securities Regulation, Household Equity Ownership, and Trust in the Stock Market, 24 (3) *Review of Accounting Studies*, 824-859 (2019); and D. Aghanya, V. Agarwal & S. Poshakwale. Market in Financial Instruments Directive (MiFID), Stock Price Informativeness and Liquidity, 113 *Journal of Banking & Finance*, 105730 (2020).

regulators reduces the cost of liquidity provision and increases cross-border investment in the capital markets of participating countries. Finally, Christensen et al. [2019] and Aghanya et al. [2020] study the impact of the introduction of the European Union's Market Abuse Directive and MiFID. These studies conclude that these initiatives, designed to enhance investor protections, have led to higher household ownership of equities, higher liquidity, and higher stock price informativeness.

The proposed rule change would implement fee changes that would maintain the current distribution of total fees allocated across members by size and business model. Based on FINRA's projections of fee increases from 2024 to 2029, approximately 67% of the fee increases would be borne by large firms, 22% by mid-size firms, 9% by small firms, 1% by micro firms and the remaining 1% by non-members.¹¹³

Chart 5 describes the proportion of regulatory and use-based fees anticipated to be collected under the proposed rule change across firm size categories during the period from 2024 through 2029.¹¹⁴ In each year, 66%-68% of the fee is expected to be borne by large firms, 16%-17% by mid-size firms, 11%-12% by small firms, approximately 1% by micro firms, and 3-4% by non-members. Therefore, the overall allocation of fees by firm size is expected to remain relatively unchanged with the implementation of the increase in fees.

Chart 6 describes the proportion of regulatory and use-based fees anticipated to be collected across firm business models during the period from 2024 through 2029.¹¹⁵ In

¹¹³ The firm size categories are defined above, see supra note 101.

¹¹⁴ See supra note 110.

¹¹⁵ See supra note 110.

each year, approximately 70% of the fees are expected to be borne by diversified and retail firms, with the remaining fees distributed relatively evenly across trading, capital markets, and clearing firms. As with FINRA's analysis of the proposed fee increases by firm size, the chart demonstrates that the overall allocation by firm business models is expected to remain unchanged with the implementation of the increase in fees.

Taken together, these charts indicate that the proposed fee increases are designed to allocate the growth in fees in an equitable manner, all else held equal, by maintaining a similar allocation of fees across firm sizes and business models, both overall and year-by-year.

As discussed, while potentially material, FINRA fees represent a small dollar amount relative to industry activity. Since 2013, as a percentage of member revenue, FINRA's total fees have ranged between 0.2% and 0.4%, with an average of 0.30%. Under the assumption that members' revenues resume growth at a level commensurate with recent history,¹¹⁶ FINRA's fees would be 0.31% percent by 2029.¹¹⁷ This share of member revenue is close to the historical average of 0.30%.

The amount of the fee increase borne by members depends on the extent to which they shift the burden of these fees to their associated persons and customers. As discussed above, FINRA understands that of the fees addressed by this proposal, the fee most likely to be passed through to customers is TAF, which is directly tied to customer trading activities. Despite the pass-through, FINRA believes the proposed TAF increase

¹¹⁶ This 2029 industry revenue projection is based on historical FOCUS revenue growth of 8.5% (2013-2023).

¹¹⁷ See supra note 30 and accompanying text.

would not significantly affect customer trading behavior as TAF represents a small proportion of the average value of customer transactions. In 2023, TAF per share traded was 0.031 basis points (0.00031%) of the average price of the traded shares. When the new rates are fully implemented in 2029, TAF per share traded would be approximately 0.058 basis points of the average price of traded shares.¹¹⁸

To better understand the impact of the proposed fee increases across members within each firm size category, FINRA analyzed the expected distribution of fee increases for all existing firms under the proposed fee structure, based on the expected rate of dispersion. Dispersion is a way to compare the anticipated growth rate in fees across a range of firms. Lower dispersion is associated with a higher degree of consistency in terms of the impact of the proposed fee increases and can be interpreted as more firms in a given group experiencing similar rates of growth. By seeking to limit dispersion, the proposal is effectively limiting the potential for inequitable treatment across members. This approach also reduces the potential for the proposed fee increase to create unintended impacts on the provision of financial services by members and the business models adopted by them.

FINRA's analysis examines the level of dispersion based on the CAGR of the expected fee increase. CAGR is measured in this analysis relative to FINRA's projection of total fees in 2024.¹¹⁹ CAGR provides a standard metric to compare the relative impact

¹¹⁸ The average share price estimate is based on the number of shares and dollar trading volume from CBOE. See https://www.cboe.com/data_and_access_solutions for details.

¹¹⁹ We exclude firms that are not assessed GIA in the base year from CAGR distribution analysis. Since GIA in the base year drives the denominator of the CAGR formula, firms that are not assessed GIA would have inflated CAGRs by

of the fee increases within and across subgroups. Because the number of registered persons, trading and other business activities, and resulting aggregate fee dollar amounts vary significantly across firms and firm sizes, benchmarking to CAGR permits FINRA to closely compare the magnitude of the distribution across firms.

As discussed, implementation of the proposed rule change would take place over several years, with a minority of fees going into effect in 2025, most fees implemented in 2026 or later, and several fees phased in over several years between 2025 and 2029. Due to the variability in when fees are implemented, and whether they are implemented at one time or phased in, FINRA believes that considering dispersion by firm size category over the five-year period is more useful than on an annual basis.

Charts 7 through 10 provide a view on the distribution of fee increases within each firm size category. These charts also report the median increase in FINRA fees that are the subject of this proposal over the full period from 2025 through 2029 by firm size. Within the charts, each of the four central bars represents one standard deviation from the median, so that the two most central dark blue bars together would theoretically represent approximately 67% of all firms evaluated (plus or minus one standard deviation) and approximately 95% of firms evaluated should be represented under the four most central dark blue and mid-blue bars (plus or minus two standard deviations) presented in the charts.

While it is not feasible to eliminate the possibility that some members will experience a rate of fee growth that is outside of the two standard deviation range,

construction. Therefore, we exclude these firms to ensure that the tails of our distribution reflect a more accurate measure of fee growth.

FINRA sought to limit the number of firms falling into this category when structuring this proposal. These charts demonstrate that the proposal significantly limits the number of firms that fall beyond two standard deviations from the median increase. In particular, the proposal limits those firms that would be expected to experience a materially higher fee increase than the median (as defined by two standard deviations). When considering all the fees in this proposal, FINRA estimates that fewer than 2.5% of members would experience a fee increase greater than two standard deviations from the median. When only core regulatory fees are considered (i.e., excluding select use-based fees that only impact the users of those programs or services) fewer than 1% of firms would experience a fee increase greater than two standard deviations from the median.¹²⁰

Based on this analysis, FINRA concludes the following:

- For micro firms, the median firm would anticipate an annual increase of 3.4%, translating to a dollar increase of \$625. Approximately three-quarters of these firms would experience an annual increase between 1.4% and 5.4% between 2025 and 2029. Holding revenues constant at 2024 levels, total regulatory and use-based fees would increase from 0.26% to 0.31% of FOCUS reported revenues on average. This group includes 1,538 firms and represents 46.5% of all FINRA members.
- For other small firms, the median firm would anticipate an annual increase of 3.9%, translating to a dollar increase of approximately \$4,135.

¹²⁰ As discussed above, the select use-based fees include Corporate Financing Private Placement Review; Corporate Financing Public Offering Review; Advertising Regulation Review; DRS Arbitration; and Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time. See supra note 21.

Approximately 80% of these firms would experience an annual increase in fees between 1.3% and 6.4% between 2025 and 2029. Holding revenues constant at 2024 levels, total regulatory and use-based fees would increase from 0.23% to 0.29% of FOCUS reported revenues on average. This group includes 1,414 firms and represents 42.8% of all FINRA members.

- For mid-size firms, the median firm would anticipate a 5% annual increase, translating to a dollar increase of approximately \$82,500. Approximately three-quarters of these firms would experience an annual increase between 2.9% and 7.1% between 2025 and 2029. Holding firm revenues constant at 2024 levels, total regulatory and use-based fees would increase from 0.26% to 0.36% of FOCUS reported revenues on average. This group includes 212 firms and represents 6.4% of all FINRA members.
- For large firms, the median firm would anticipate a 5.4% annual increase, translating to a dollar increase of approximately \$415,000. Approximately three-quarters of these firms would experience an annual increase between 4.0% and 6.9% between 2025 and 2029. Holding revenues constant at 2024 levels, total regulatory and use-based fees would increase from 0.18% to 0.23% of FOCUS reported revenues on average. This group includes 141 firms and represents 4.3% of all FINRA members.

FINRA notes that 1.7% of micro firms would experience a fee increase greater than two standard deviations above the median. Because the median increase is relatively low (\$625), small dollar increases in fees can result in a large change in CAGR and its distribution.

FINRA also notes that the 2.5% of small firms that would experience a fee increase greater than two standard deviations are mostly firms that would incur new or increased use-based fees for FINRA services that are not core regulatory activities. If only core regulatory fees are considered, only 1.1% of small firms would experience a fee increase greater than two standard deviations from the median increase.

The 2.4% of mid-size firms that would experience a fee increase greater than two standard deviations above the median are mostly firms that incur a significant increase in TAF. If TAF is excluded, only 1.4% of mid-size firms would experience a fee increase greater than two standard deviations from the median increase. As mentioned above, FINRA understands that the TAF is typically passed-through to customers.

As part of its analysis, FINRA also considered the broad potential impacts on competition under this proposal. The analysis considers the impact across all FINRA members, across members based on size or business model, and between members and other financial services providers.

FINRA does not anticipate that the proposal will materially impact competition among members. The proposal is designed to maintain the current funding model and the relative allocation of fees across its core regulatory fees and select use-based fees. In other words, each of the affected fees would increase commensurate with fees charged under the current framework; no individual fee would be raised such that it may create inordinate hardships for some firms and benefit others. Implementation of the proposed rule change would not require significant system or process changes by firms.

Similarly, FINRA does not anticipate that the proposed rule change will materially impact competition across members of different sizes or business models. The

analysis of distributions within firm size indicates that firms may anticipate some differences in fee increases based on the services they provide and the way they provide those services. Nevertheless, as designed, the proposal maintains the relative allocation of fees across firm size and business model, meaning the proposed rule change is designed to preserve a consistent rate of growth in fee increases across firm size and business model. As noted above, this approach is designed to limit the likelihood that any specific fee change may create hardships for some firms and benefit others. Further, this proposed rule change maintains the current approach for cross-subsidization of the cost of regulatory oversight of members of different sizes.

FINRA can identify two potential impacts of this proposal on the competition between its members and other providers of financial services. Although these increases are calibrated to limit the impact on individual members, at the margin, some members may find these increases material to their business. Further, where members may have the ability to provide similar services, or a subset of services, under an alternative business model that does not require FINRA membership, increased FINRA costs may increase the likelihood that these firms withdraw from FINRA in favor of the alternative business model. Based on the information available to it today, FINRA does not have an accurate measure of the number of members that may choose to withdraw registration as a FINRA member as a result of this proposed rule change.¹²¹

¹²¹ FINRA notes that because of the time lapse between proposal, adoption and implementation of fee increases, combined with changing business environments over time, it is difficult to reliably estimate the number of firms that might have exited historically because of previous fee increases.

The proposed rule change may have an additional impact on competition through funding FINRA's regulatory activities. As discussed above, strong and effective surveillance and regulation of securities markets has been shown to increase investor confidence in the fairness of the market. This has been measured by an increase in retail participation in the securities markets, greater liquidity, and higher securities valuations. Given the presence of substitutes to broker-dealers for retail clients—e.g., investment advisory services, issuers selling directly to the public, or certain market-linked insurance products—it may be reasonable to expect that effective regulation by FINRA would continue to be a positive externality to those competitors. That is, increased confidence by retail investors due to FINRA's activities may increase business opportunities and lower transaction costs in the securities industry as a whole. This would benefit non-FINRA member competitors, especially in instances where investors do not recognize these competitors are not regulated by FINRA.

Alternatives Considered

In developing this proposal, FINRA considered several options. First, FINRA considered making all the fee changes effective in 2025. FINRA did not pursue this alternative because it believed that, where possible, members should be provided an extended time period to plan for the proposed fee increase. In light of uncertainty and volatility in the markets, FINRA believes that implementing the proposed fee increase at one time would impose a greater burden on members than phasing in the implementation of the fee increases, as proposed.

FINRA also considered making all of the fee changes effective in 2026, but decided against that approach for many of the same reasons noted above. However,

FINRA believes that deferring implementation of all fees in this proposed rule change is unnecessary and would hinder FINRA's ability to support its regulatory mission. As discussed, the uncertainty in the markets, which creates challenges for members and investors, also impacts FINRA. For example, market volatility increases the risk that FINRA's reserve portfolio will fall below the appropriate minimum.¹²² This limits FINRA's flexibility in relying on its reserves to cover funding gaps and indicates the need for stable funding as soon as practicable.

Further, FINRA notes that consistent investor protection is of vital importance, particularly in times of uncertainty, where FINRA has seen an increase in customer complaints and alerts from its surveillance programs.¹²³ Financial limitations that constrain FINRA's ability to carry out its mission would have material negative implications for investors and the financial markets. Taking these concerns into account, FINRA believes that the most prudent course of action is to start increasing some fees in 2025, but to stagger the implementation over multiple years.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

¹²² See supra note 9.

¹²³ In the first quarter of 2020, FINRA saw an increase in alerts generated through its market surveillance of over 250% compared to the same quarter in 2019.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A)(ii) of the Act¹²⁴ and paragraph (f)(2) of Rule 19b-4 thereunder,¹²⁵ in that the proposed rule change is establishing or changing a due, fee, or other charge imposed by the self-regulatory organization on any person, whether or not the person is a member of the self-regulatory organization.

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

9. **Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

10. **Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

11. **Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 3. Supporting Charts.

Exhibit 5. Text of the proposed rule change.

¹²⁴ 15 U.S.C. 78s(b)(3)(A)(ii).

¹²⁵ 17 CFR 240.19b-4(f)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2024-019)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adjust FINRA Fees to Provide Sustainable Funding for FINRA’s Regulatory Mission

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as “establishing or changing a due, fee or other charge” under Section 19(b)(3)(A)(ii) of the Act³ and Rule 19b-4(f)(2) thereunder,⁴ which renders the proposal effective upon receipt of this filing by the Commission. 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 adjust FINRA fees to provide sustainable funding for FINRA’s regulatory mission.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

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, FINRA 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. FINRA 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

Overview

FINRA is submitting this proposed rule change to increase the revenues that FINRA, as a not-for-profit self-regulatory organization ("SRO"), relies upon to fund its regulatory mission. Over the past year, FINRA has publicly stated many times its need to file a fee change this year to increase its fees. Over the past several years, FINRA has experienced significant expense growth resulting from rising technology costs related to capital investments seeking long-term efficiency gains for both FINRA and the industry, rising cloud hosting costs, ongoing disaster recovery and cybersecurity requirements, and elevated wage inflation and essential headcount increases necessitated by the growing breadth and complexity of FINRA's responsibilities.

To sustain FINRA's regulatory capabilities, FINRA proposes to increase fees

related to FINRA's core regulatory functions as well as select fees related to the use of FINRA programs and services. The proposal is designed to closely align FINRA's revenues with its costs while preserving the historical equitable allocation of fees among FINRA members. In parallel, FINRA continues to implement operational improvements to ensure FINRA's operations are effective and efficient.

Implementation of the proposed rule change would take place over several years, with a minority of fees going into effect in 2025, most fees implemented in 2026 or later, and several fees phased in over several years between 2025 and 2029. Thus, under the proposed rule change, FINRA would aim to collect more than 90 percent of the revenue it seeks to raise in 2026 or later. FINRA is submitting the proposed rule change now to provide members with sufficient advance notice of the proposed fee changes for annual budgeting and financial planning purposes. The proposed rule change is intended to provide sustainable longer-term funding, in a manner consistent with FINRA's public Financial Guiding Principles ("Guiding Principles"),⁵ to enable FINRA to continue fulfilling its regulatory mission.

FINRA's Current Fee Structure

As a not-for-profit SRO, FINRA receives no taxpayer funding and instead relies on a mix of fees that are intended to cover the overall costs of FINRA's operations. The majority of FINRA's funding is derived from three regulatory fees: the Gross Income Assessment (GIA), Trading Activity Fee (TAF), and Personnel Assessment (PA). These fees, respectively, reflect one of the three critical components driving FINRA's

⁵ See FINRA's Financial Guiding Principles, https://www.finra.org/sites/default/files/finra_financial_guiding_principles_0.pdf.

regulatory costs with respect to a particular member: (1) the size of the firm measured by firm revenue, (2) the firm's trading activity, and (3) the number and role of persons registered with the firm. FINRA also employs use-based fees for specific services it provides to members and the public in support of its regulatory mission. Several use-based fees, including registration fees, qualification examination fees, and continuing education fees, among others, align with a critical component of FINRA's regulatory costs (i.e., the number and role of registered persons at a firm). As such, FINRA considers those use-based fees part of its "core" regulatory fees.

In addition, FINRA employs other use-based fees for certain services it provides to members and the public. Examples include fees associated with: reviewing public offering filings; reviewing communications with the public; and operating the FINRA Dispute Resolution Services ("DRS") arbitration forum. As FINRA has explained previously,⁶ when applying use-based fees, FINRA takes into account three associated types of costs: direct costs for the program associated with the use-based fee, such as program development and operating expenses, and reinvestments and enhancements; indirect costs for the program, including supporting services necessary for the program's associated regulatory activity; and a contribution to FINRA's overall regulatory operations, which promotes its mission of investor protection.⁷ Thus, taken together, core regulatory fees and other use-based fees allow FINRA to fund its regulatory mission.⁸

⁶ See Securities Exchange Act Release No. 90176 (October 14, 2020), 85 FR 66592 (October 20, 2020) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2020-032).

⁷ See supra note 6.

⁸ In addition to the services FINRA provides in furtherance of its regulatory mission, FINRA also provides certain services on a contract basis to third parties.

FINRA has explained that numerous operations and services must be funded by general revenue sources, which include both core regulatory and other use-based fees.⁹ There are several reasons for this. For instance, it is not feasible to associate a direct affiliated revenue stream for each of FINRA's programs (e.g., examinations of members do not have an associated revenue stream). Similarly, there is no one consistent driver of costs of a particular regulatory program. Even where one cost driver may, at times, align with a particular revenue stream (e.g., as trading activity increases, certain Market Regulation costs may increase), the relationship may not hold at other times. For example, novel trading patterns in single or multiple securities may not be associated with significant volume but may require comparatively larger efforts in terms of regulatory oversight. Likewise, periods of intense market volatility may influence regulatory costs independent of the change in trading volume.

Further, in light of FINRA's diverse membership of firms that vary greatly in size and business model, it is not feasible to develop a comprehensive pricing structure that precisely accounts for the particular costs associated with each member.¹⁰ Rather, FINRA's current fee structure is designed to ensure sufficient funding to meet all of its regulatory obligations in a manner that equitably allocates fees among FINRA members, notwithstanding the fluctuations in different revenue streams and cost drivers that are

These contract service fees represent approximately 8% of FINRA's total revenues. Importantly, these revenues pay in full for the services rendered under the contracts, and FINRA's costs to perform these services are not funded with any of the regulatory revenue discussed in this filing.

⁹ See supra note 6.

¹⁰ See supra note 6.

naturally expected to occur over time. The Commission has historically agreed that this overall cost-based pricing structure “is reasonable in that it achieves a generally equitable impact across FINRA’s membership and correlates the fees assessed to the regulatory services provided by FINRA.”¹¹ FINRA continues to believe that this approved approach to overall pricing is the most reasonable and equitable way to provide sufficient funding to meet its regulatory obligations as a not-for-profit SRO with broad, diverse membership.

As set out in the Guiding Principles, FINRA targets break-even cash flows as a means to appropriately fund its mission of protecting investors and promoting market integrity while facilitating vibrant capital markets. Careful expense management is another key element of the Guiding Principles. The Guiding Principles also explain the extent to which FINRA relies on its financial reserves – originally derived from the sale of Nasdaq – to help support its regulatory mission.¹² The Guiding Principles also describe how FINRA uses fine monies – which are not included in FINRA’s operating budget – to promote compliance and improve markets.¹³

¹¹ See Securities Exchange Act Release No. 61042 (November 20, 2009), 74 FR 62616, 62620 (November 30, 2009) (Order Approving File No. SR-FINRA-2009-057).

¹² See supra note 5. Information about FINRA’s financial reserves is provided each year in FINRA’s published annual financial reports. See FINRA Financial Reports and Policies, available at <https://www.finra.org/about/annual-reports>. FINRA strives to maintain an appropriate level of reserves, which the FINRA Board of Governors has determined to be at least one year of expenditures.

¹³ While fine monies are not included in FINRA’s annual operating budget, they are included in cash flow projections. For purposes of its projections, FINRA assumed a conservative amount of fine money for future years based on historical fine money receipt. When FINRA imposes fines, the amounts are based on the facts and circumstances of the misconduct and are guided by the principles set forth in FINRA’s Sanction Guidelines that are similar in nature – fines are not

FINRA's most recent comprehensive fee increase included increases to core regulatory fees from 2022 through 2024.¹⁴ Looking ahead, FINRA projects that its current fees will not keep pace with its projected future expenses in light of the continued growth in the breadth and complexity of FINRA's regulatory obligations, described in detail below. As FINRA noted recently in its 2024 Annual Budget Summary, based on the current fee structure (inclusive of the fee adjustments made from 2022 through 2024), FINRA projects it will recognize an operating loss in 2024, with a drawdown on its financial reserves of approximately \$100 million.¹⁵ FINRA estimates that, absent any

based on revenue considerations, and FINRA does not establish any minimum amount of fines that must be collected for purposes of the annual operating budget. Fines collected are accounted for separately, and the use of these monies is subject to special governance procedures and restrictions on use, as set forth in our Guiding Principles. See supra note 5. In accordance with the Guiding Principles, FINRA issues a separate annual report detailing use of fine monies as approved by the FINRA Board of Governors. See, e.g., Report of Use of 2023 Fine Monies (June 14, 2024), available at <https://www.finra.org/about/annual-reports/report-use-2023-fine-monies>.

¹⁴ See supra note 6.

¹⁵ See FINRA 2024 Annual Budget Summary, <https://www.finra.org/sites/default/files/2024-06/FINRA-2024-Annual-Budget-Summary.pdf>, at 2. This potential loss is in line with FINRA's previous multiyear strategic planning for financial sustainability, which contemplates a series of annual losses in order to reduce the size of FINRA's reserves. As discussed in the Guiding Principles, FINRA has relied on its financial reserves, which were originally derived from the sale of Nasdaq, to help support its regulatory mission. See also Funding FINRA's Mission, available at <https://www.finra.org/media-center/blog/funding-finras-mission>.

FINRA has made reasonably conservative assumptions using a variety of information points, including historical data and anticipated trends. If FINRA's structural financial deficit is materially reduced during this period, or if key assumptions change materially, FINRA would consider various modifications as appropriate. For example, FINRA has used rebates to support its commitment to reasonable, cost-based fee assessments in instances where revenues significantly exceed expenditures. These rebates are approved by the FINRA Board of Governors. A number of factors must be considered when determining whether

action, its reserve balance will fall below its Board-approved target level of one-year of operating costs by 2027. As described in more detail below, FINRA has carefully managed its expenses; however, careful expense management cannot suffice as a sustainable financial strategy in the long term, particularly in the context of rising systemic costs and FINRA's increasing regulatory responsibilities.

Background

Over the past several years, FINRA's regulatory and oversight responsibilities have grown significantly, and FINRA anticipates that they will continue to grow over the rest of this decade, requiring investments in technology and increased headcount. Simultaneously, FINRA has experienced substantial systemic expense growth resulting from, among other things, elevated wage inflation and increased operating costs related to technology.¹⁶ Several factors have contributed to these areas of growth, including: continued increases in the volume and complexity of member activity; new investment products, services, and market participants under FINRA's purview; the continuing evolution of market structure and trading patterns; and the SEC's adoption of significant new rules that require implementation by FINRA and its expanded member oversight.

For example, FINRA has made substantial investments to supervise or comply with new and amended SEC rules, such as amendments to Disclosure of Order Execution Information, Regulation M, Shortening the Securities Transaction Settlement Cycle,

to provide rebates, including the amount of excess revenue for the year, whether budget projections anticipate near-term revenue shortfalls, and the number of firms that would be eligible to receive rebates. FINRA makes information about these factors transparent to the public each year.

¹⁶ FINRA's technology costs, for example, have risen by approximately 11% per year over the last five years.

Regulation Best Interest, Market Data Infrastructure, and Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders. FINRA must also be prepared to implement and supervise significant potential new and amended rules that the SEC has proposed, including Regulation S-P, Conflicts of Interest Associated with the Use of Predictive Data Analytics, Regulation Systems Compliance and Integrity, Cybersecurity Risk Management, Regulation Best Execution, and the Order Competition Rule.

Furthermore, FINRA is investing in preparation for its expanded role in the oversight of a broader range of market participants under several SEC rulemakings. For example, the SEC has narrowed the exemption for certain exchange members under Exchange Act Rule 15b9-1, further defined “as part of a regular business”¹⁷ in the definitions of “dealer” and “government securities dealer” under the Exchange Act, and proposed to amend the definition of “exchange” under Exchange Act Rule 3b-16 and amend Regulation ATS.

FINRA is also investing to enable continued effective oversight over evolving trading patterns, such as the significant growth in retail trading, growth in smaller and fractional share trading, and increased trading outside of regular trading hours. These and other market developments, together with the evolution of new and evolving products such as securities with crypto asset components and short-dated options products, require increased oversight by FINRA staff.

FINRA is committed to a culture of continuous improvement, with a rigorous focus on carefully managing costs and identifying new efficiency opportunities, where consistent with its mission. FINRA has exercised prudent expense control and managed

¹⁷ The updated definition covers additional market participants engaged in liquidity-providing activities that generally would require SRO membership.

costs through various initiatives and technology investments that have helped to enhance efficiency and effectiveness. Beginning with the FINRA360¹⁸ initiative, which launched a comprehensive self-evaluation and organizational improvement exercise in 2017 to ensure that FINRA was maximizing its effectiveness, FINRA has implemented a number of enhancements including: enforcement program consolidation; new external transparency tools; the launch of the Small Firm Helpline; increased examiner training; creation of an Innovation Outreach Initiative; and the development of a program to evaluate and integrate advances in data analytics.

FINRA continues to invest in technology to better serve its mission and to improve FINRA's ability to communicate with members. For example, FINRA completed a multi-year digital platform upgrade that improved system interfaces, including essential registration and disclosure systems used by members.¹⁹ FINRA also continues to build on its early use of cloud computing in regulation, and invested in an Advanced Analytics Program that supports risk identification and other regulatory efforts. In the interest of regulatory efficiency, FINRA also recently discontinued a program requiring the reporting of prescribed data by certain members based on availability of data from alternative sources, resulting in millions of dollars in cost

¹⁸ Detailed information about the FINRA360 initiative is available at <https://www.finra.org/about/finra-360>.

¹⁹ Detailed information about FINRA's "Digital Experience Transformation" is available at <https://www.finra.org/filing-reporting/dxt>. FINRA built the capabilities of the Digital Experience Transformation initiative in consultation with the industry, and FINRA's investment is estimated to save the industry more than \$200 million annually in time and direct costs.

savings benefits to members.²⁰

Further, cost savings have been accomplished in recent years through supplementary expense reduction initiatives, including conducting a comprehensive efficiency review of FINRA's core business lines; establishing a framework for improving measurement of FINRA's key performance results; voluntary retirement/incentive programs in 2020 and 2024; and strategic reductions in FINRA's corporate real estate footprint.

Given this context, and despite the significant increase in the breadth and complexity of FINRA's regulatory responsibilities, FINRA's expense growth rate from 2013 through 2023 has been significantly lower than that of the broader financial services industry. Specifically, FINRA's costs increased by 41% cumulatively during this period compared with 129% for the industry.²¹ Similarly, FINRA's total compensation costs rose by 31% on a cumulative basis during this period as compared with a 50% increase for the average U.S. financial services employee.²² FINRA's restrained expense growth is the result of careful management of both compensation costs, the largest driver of FINRA's budget, and non-compensation costs, such as technology and real estate.

²⁰ See Regulatory Notice 23-17 (October 2023).

²¹ Based on FOCUS reporting.

²² FINRA total compensation represents business compensation, excluding technology. Average U.S. employee wage growth represents Finance and Business Services wage growth supplied by the Bureau of Labor Statistics and Federal Reserve Bank of Atlanta. See Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations at <https://www.atlantafed.org/chcs/wage-growth-tracker>.

Notwithstanding these efforts, as discussed, FINRA projects that its current fees will not keep pace with its projected future expenses. FINRA therefore proposes to increase its fees as described below.

Proposal

The proposed rule change would raise FINRA's core regulatory fees²³ as well as select use-based fees²⁴ that fund various FINRA services and programs. Consistent with the Guiding Principles, the proposed rule change would more effectively allow FINRA to balance its cash flow sources, operating expenses and capital expenditures, and stabilize its financial reserves by 2029. As discussed above, a minority of proposed fee increases would go into effect in 2025, while most fees would be implemented in 2026 or later, and

²³ For ease of reference in this filing, FINRA refers to the following core regulatory fees: GIA; TAF; PA; Branch Office Fees; Registration; Qualification Examination; Continuing Education Regulatory Element Reporting; Late Disclosure; System Processing; and Renewal Late Fee.

²⁴ For ease of reference in this filing, FINRA refers to the following select use-based fees: Corporate Financing Private Placement Review; Corporate Financing Public Offering Review; Advertising Regulation Review; DRS Arbitration; and Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time. The proposed fee increase will apply to filings or submissions related to these use-based services on or after the effective date.

several fees would be phased in over several years between 2025 and 2029.²⁵ The following table summarizes the proposed timeline for implementing each fee increase:

<u>Fee Implementation Schedule</u> ²⁶	
<u>Fee</u>	<u>Implementation Schedule</u>
Advertising Regulation Review	2025
DRS Arbitration	2025
Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time	2025
Corporate Financing Private Placement Review	2025 (Q3)
Corporate Financing Public Offering Review	2025 (Q3)-2029
Branch Office Fees	2026, 2028
Continuing Education Regulatory Element	2026
Late Disclosure	2026
Qualification Examination	2026
System Processing	2026, 2028
GIA	2026-2028
TAF	2026-2029
PA	2026-2029
Registration	2028
Renewal Late Fee	2028

²⁵ FINRA considered feedback from members of FINRA's advisory committees and other industry consultations that emphasized the importance of advance notice of fee increases to permit member firms to better plan for the proposed package of fee increases over multiple budget cycles. FINRA also considered stakeholder feedback that one-time increases for certain fees help reduce the administrative burdens on members.

²⁶ Fees listed in chronological order of initial implementation. Unless specified otherwise in the table above, the proposed fee increase would take effect on January 1 of the year stated. This table does not include proposed conforming amendments to two fees that impact funding portal members.

Taken together, the proposed rule change is projected to generate additional revenue of between \$40 million and \$160 million each year compared to the previous year from 2025 through 2029. The amount of the increase varies each year due to the phased implementation schedule described above. Cumulatively, the proposed rule change would increase FINRA's annual fee revenues by an estimated \$450 million (once fully implemented in 2029) as compared to the annual fee revenues that would have existed in the absence of the proposed rule change. As such, the proposed rule change is calibrated to cover FINRA's projected budget deficit and achieve a balanced budget by 2029.²⁷ This approach will retain FINRA's reserve balance at its target level based on FINRA's projected revenue and costs,²⁸ while providing members advance notice of fee increases, phasing some of the increases over multiple years, and maintaining an

²⁷ As discussed below, Chart 2, attached in Exhibit 3, available on FINRA's website at <http://www.finra.org>, demonstrates the difference between FINRA's projected cash flow sources and cash flow uses through 2029, absent the proposed rule change.

²⁸ Anticipated costs would not include potential costs associated with new services that may be initiated or approved in the future. FINRA may submit separate fee filings to cover program costs for new services. FINRA notes this proposed rule change does not include fees associated with the Consolidated Audit Trail ("CAT") or the Securities Lending and Transparency Engine ("SLATE"), both of which are subject to separate proposed rule changes with the Commission. See, e.g., Securities Exchange Act Release No. 100920 (September 4, 2024), 89 FR 73457 (September 10, 2024) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2024-011); Securities Exchange Act Release No. 100920 (September 4, 2024), 89 FR 73457 (September 10, 2024) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2024-012). Similarly, FINRA notes that program costs associated with the reporting of transactions in U.S. Treasury Securities ("Treasuries") are not included in the targeted amount sought by this proposal; currently, Treasuries transactions are exempted from both TRACE transaction reporting fees and from the TAF. See Securities Exchange Act Release No. 79116 (October 18, 2016), 81 FR 73167, 73176 (October 24, 2016) (Order Approving File No. SR-FINRA-2016-027).

equitable allocation of fees among FINRA members. As discussed further below, under the proposed rule change, the current proportion of fees borne by FINRA members based on firm size and business model, respectively, would remain stable through 2029.²⁹

In total, the proposed fee changes will result in a compounded annualized growth rate (“CAGR”) of 5.3% across total FINRA fees between 2025 and 2029.³⁰ Excluding specific fees typically passed on by members,³¹ the CAGR between 2025 and 2029 is projected to be 4.8% for FINRA members. Further, assuming that the majority, if not all, of TAF is also passed directly through to investors, the fee increase CAGR falls to the 3% to 4% range for FINRA members.³² During the same period, FINRA reasonably anticipates that its future expenses will grow at a CAGR of 5.9%, with a portion of such expense growth covered by anticipated cash flow sources other than the proposed fee increases. FINRA’s fees will continue to represent a small dollar proportion of industry revenues as reported in FOCUS reports. FINRA estimates that FINRA’s total fees when

²⁹ See Exhibit 3, Charts 5 and 6.

³⁰ The CAGR provides a geometric average of the change in fees over the implementation period. It is particularly useful for comparing growth rates from various sets of data over the same multi-year period.

³¹ Some of the fees discussed in this filing are or would be absorbed by non-members, including Corporate Financing review fees for public offerings and private placements, which are generally passed through to issuers, and a portion of DRS fees that are paid directly by customers.

³² Many members identify that they pass through TAF to customers. Assuming 65% of TAF is passed to non-members, the fee increase CAGR to membership falls to 3.9%. If 100% of TAF is passed through, the fee increase CAGR to FINRA’s membership falls to 3.1%.

the proposed fee increases are fully implemented would represent approximately 0.31% of recent industry revenues by 2029.³³

In sum, the proposed rule change is designed to collect the targeted revenue amount needed to address FINRA's projected budget deficit through a combination of core regulatory and select use-based fees that yield an equitable overall fee increase across member size and type. The proposed rule change is thus designed to preserve the same SEC-approved, equitable fee allocation across members that FINRA has maintained for years by minimizing the change to distribution of fees across members.

Each specific fee in the proposed rule change is described below.

Core Regulatory Fees

Gross Income Assessment

The GIA is a core regulatory fee designed to correlate to one of the three critical components of FINRA's regulatory costs—the size of a firm (based on revenue).

Accordingly, the GIA is based on a firm's annual gross revenue,³⁴ employing a graduated seven-tier rate structure that has applied since 2008.³⁵

³³ Industry revenue projections for 2029 are based on historical FOCUS revenue growth of 8.5% (2013-2023).

³⁴ Section 2 of Schedule A to the FINRA By-Laws defines gross revenue for assessment purposes as total income as reported on FOCUS form Part II or IIA, excluding commodities income.

³⁵ The applicable GIA rate applies on a marginal basis to annual gross revenues that exceed each applicable threshold. While the GIA rate structure has not changed since 2008, FINRA made modifications to the method of GIA calculation under the structure in 2009 and 2014, and increased the GIA rate between 2022 and 2024. In 2009, the Commission approved a GIA calculation modification designed to mitigate year-to-year revenue volatility by assessing members the greater of a GIA calculated based on the firm's annual gross revenue from the preceding calendar year, or a GIA averaged over the prior three years. See Order Approving SR-FINRA-2009-057, supra note 11, 74 FR 62616, 62617. In 2014,

Section 1(c) of Schedule A to the FINRA By-Laws sets forth the GIA. The current rates, which reflect the fee adjustments made from 2022 through 2024, are as follows:

- (1) \$1,200.00 on annual gross revenue up to \$1 million;
- (2) 0.1732% of annual gross revenue greater than \$1 million up to \$25 million;
- (3) 0.3705% of annual gross revenue greater than \$25 million up to \$50 million;
- (4) 0.0738% of annual gross revenue greater than \$50 million up to \$100 million;
- (5) 0.0520% of annual gross revenue greater than \$100 million up to \$5 billion;
- (6) 0.0566% of annual gross revenue greater than \$5 billion up to \$25 billion; and
- (7) 0.1219% of annual gross revenue greater than \$25 billion.

Thus, for example, under the current rates, for a member with annual gross revenue of \$30 billion, the GIA would be calculated as follows: the first \$1 million at the Tier 1 rate (\$1,200), plus the next \$24 million at the Tier 2 rate (0.1732%), plus the next \$25 million at the Tier 3 rate (0.3705%), plus the next \$50 million at the Tier 4 rate (0.0738%), plus the next \$4.9 billion at the Tier 5 rate (0.0520%), plus the next \$20 billion at the Tier 6 rate (0.0566%), plus the final \$5 billion at the Tier 7 rate (0.1219%), for a total assessment of \$20,135,293.

FINRA refined the GIA calculation method to provide limited relief for smaller member firms from unintended effects of the 2009 calculation change; as a result of the 2014 change, firms that have annual gross revenue of \$25 million or less pay the GIA based on preceding year revenue without looking to a three-year average. See Securities Exchange Act Release No. 73632 (November 18, 2014), 79 FR 69937 (November 24, 2014) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2014-046). In 2020, FINRA proposed changes to the GIA tier rates, which went into effect between 2022 and 2024. See Order Approving SR-FINRA-2020-032, supra note 6, 85 FR 66592.

FINRA is proposing the following changes to its GIA tier rates from 2026 through 2028.³⁶

<u>GIA – Proposed Implementation</u>						
<u>Tier (Revenue)</u>	<u>2024 (current)</u>	<u>2025 (no change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$0 to \$1 million	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Greater than \$1 million up to \$25 million	0.1732%	0.1732%	0.1827%	0.2056%	0.2280%	0.2280%
Greater than \$25 million up to \$50 million	0.3705%	0.3705%	0.3909%	0.4397%	0.4877%	0.4877%
Greater than \$50 million up to \$100 million	0.0738%	0.0738%	0.0779%	0.0876%	0.0972%	0.0972%
Greater than \$100 million up to \$5 billion	0.0520%	0.0520%	0.0549%	0.0618%	0.0685%	0.0685%
Greater than \$5 billion up to \$25 billion	0.0566%	0.0566%	0.0597%	0.0672%	0.0745%	0.0745%
Greater than \$25 billion	0.1219%	0.1219%	0.1286%	0.1447%	0.1604%	0.1604%

Thus, for example, under the new rates once fully implemented in 2029, for a member with annual gross revenue of \$30 billion, the GIA would be calculated as

³⁶ FINRA notes the Exhibit 5 to this proposed rule change, available on FINRA's website at <http://www.finra.org>, is marked to show the changes as they are proposed to take effect each year, as described in this filing. Specifically, Exhibit 5A and 5B shows the proposed changes that would take effect in 2025, Exhibit 5C shows the proposed changes that would take effect in 2026, Exhibit 5D shows the proposed changes that would take effect in 2027, Exhibit 5E shows the proposed changes that would take effect in 2028, and Exhibit 5F shows the proposed changes that would take effect in 2029.

follows: the first \$1 million at the Tier 1 rate (\$1,200), plus the next \$24 million at the Tier 2 rate (0.2280%), plus the next \$25 million at the Tier 3 rate (0.4877%), plus the next \$50 million at the Tier 4 rate (0.0972%), plus the next \$4.9 billion at the Tier 5 rate (0.0685%), plus the next \$20 billion at the Tier 6 rate (0.0745%), plus the final \$5 billion at the Tier 7 rate (0.1604%), for a total assessment of \$26,502,945.

When the proposed GIA rates are fully implemented, they are designed to generate an additional \$80 million in annual revenue by 2029. The proposed GIA increase preserves the existing seven-tier structure and calculation method while raising each tier proportionately. With these proposed increases, the GIA structure would continue to reflect the costs associated with performing regulatory responsibilities across FINRA's diverse population of members. Notably, the proposed rule change would not increase the flat \$1,200 fee for members with revenues of \$1 million or less. Maintaining this fee level for the smallest members preserves FINRA's existing approach to cost distribution between members of varying sizes.

Further, FINRA seeks to preserve the historical proportionality across fees associated with the three main components of FINRA's regulatory costs—the size of the firm measured by firm revenue, the firm's trading activity, and the number and role of persons registered with the firm—with the aim of collecting a generally comparable amount of revenue from fees associated with each of these components once the proposed rule change is fully implemented. To that end, the proposed rule change would increase the GIA at a reduced rate relative to the other core regulatory fees. This is because, for 2024, GIA revenues exceeded projections due to record aggregate industry revenues. As a result, FINRA has proposed to phase in the proposed increases to the GIA

more gradually, and at a reduced rate, relative to the other core regulatory fees to help preserve historical proportionality across these fees and achieve a generally comparable revenue distribution. FINRA believes this proportional approach to fee increases will provide member firms a greater degree of certainty and predictability, as it seeks to maintain consistency with FINRA’s existing equitable fee distribution. FINRA further believes its proportional approach reduces the potential for unintended impacts on the services provided by member firms, and the business models they adopt, that could arise from significant changes to fee distribution.

Trading Activity Fee

The TAF is a core regulatory fee designed to correlate to a critical component of FINRA’s regulatory costs—the trading activity of a firm. FINRA initially adopted the TAF in 2002, modeled on the Commission’s transaction-based Section 31 fee.³⁷ The TAF is generally assessed on the sale of all exchange-listed securities wherever executed (except debt securities that are not TRACE-Eligible Securities), over-the-counter equity securities, security futures, TRACE-Eligible Securities (provided that the transaction is a Reportable TRACE Transaction), and all municipal securities subject to Municipal Securities Rulemaking Board reporting requirements.³⁸ The current TAF rates, which reflect the fee adjustments made from 2022 through 2024, are:

³⁷ See Securities Exchange Act Release No. 46416 (August 23, 2002), 67 FR 55901 (August 30, 2002) (Notice of Filing and Immediate Effectiveness of File No. SR-NASD-2002-98).

³⁸ Certain types of transactions are excluded from the TAF (e.g., primary market transactions, proprietary transactions executed by a member on a national securities exchange in the member’s capacity as an exchange specialist or market maker, transactions effected by a proprietary trading firm on an exchange of which such firm is a member, and transactions in U.S. Treasury Securities). See FINRA By-Laws, Schedule A, Section 1(b)(2) (providing full list of transactions

- (1) \$0.000166 per share for each sale of a covered equity security, with a maximum charge of \$8.30 per trade;
- (2) \$0.00279 per contract for each sale of an option;
- (3) \$0.00011 per contract for each round turn transaction of a security future, provided there is a minimum charge of \$0.014 per round turn transaction;
- (4) \$0.00105 per bond for each sale of a covered TRACE-Eligible Security (other than an Asset-Backed Security) and/or municipal security, with a maximum charge of \$1.05 per trade; and
- (5) \$0.00000105 times the value, as reported to TRACE, of a sale of an Asset-Backed Security, with a maximum charge of \$1.05 per trade.³⁹

FINRA is proposing the following changes to its TAF rates between 2026 and 2029:

<u>TAF– Proposed Implementation</u>						
<u>Security Type</u>	<u>2024 (current)</u>	<u>2025 (no change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Covered Equity Security	\$0.000166 per share (up to \$8.30 max per trade)	\$0.000166 per share (up to \$8.30 max per trade)	\$0.000195 per share (up to \$9.79 max per trade)	\$0.000232 per share (up to \$11.61 max per trade)	\$0.000240 per share (up to \$12.05 max per trade)	\$0.000249 per share (up to \$12.50 max per trade)

exempt from the TAF). This proposed rule change would not change the scope of any current TAF exemptions.

³⁹ If the execution price for a covered security is less than the TAF rate (\$0.000166 for covered equity securities, \$0.00279 for covered options contracts, or \$0.014 for a security future) on a per share, per contract, or round turn transaction basis, then no fee is assessed.

Options	\$0.00279 per contract	\$0.00279 per contract	\$0.00329 per contract	\$0.00390 per contract	\$0.00404 per contract	\$0.00420 per contract
Security Future	\$0.00011 per contract (with \$0.014 minimum per round turn transaction)	\$0.00011 per contract (with \$0.014 minimum per round turn transaction)	\$0.000135 per contract (with \$0.016 minimum per round turn transaction)	\$0.00016 per contract (with \$0.019 minimum per round turn transaction)	\$0.000166 per contract (with \$0.020 minimum per round turn transaction)	\$0.000172 per contract (with \$0.021 minimum per round turn transaction)
TRACE-Eligible Security (Other than Asset-Backed Security) or municipal security	\$0.00105 per bond (up to \$1.05 max per trade)	\$0.00105 per bond (up to \$1.05 max per trade)	\$0.00124 per bond (up to \$1.24 max per trade)	\$0.00147 per bond (up to \$1.47 max per trade)	\$0.00153 per bond (up to \$1.53 max per trade)	\$0.00158 per bond (up to \$1.58 max per trade)
TRACE-Eligible Asset-Backed Security	\$0.00000105 times reported value (up to \$1.05 max per trade)	\$0.00000105 times reported value (up to \$1.05 max per trade)	\$0.00000124 times reported value (up to \$1.24 max per trade)	\$0.00000147 times reported value (up to \$1.47 max per trade)	\$0.00000153 times reported value (up to \$1.53 max per trade)	\$0.00000158 times reported value (up to \$1.58 max per trade)

When the new TAF rates are fully implemented, they are designed to generate an additional \$186 million in annual revenue by 2029. The proposed TAF changes reflect proportional increases in the amount raised for each security type—meaning there is no anticipated change in the percentage of overall TAF revenue collected from transactions in each security type—phased in incrementally over the delayed four-year implementation period. Accordingly, while TAF revenues are largely derived from

transactions in equity securities, like the SEC’s Section 31 fee, this proposed rule change is intended to preserve the current distribution of TAF fees among security types.

The aggregate TAF increases would generate more revenue relative to the other core regulatory fees to preserve the historical proportionality among the core regulatory fees associated with firm trading activity and the other main components of FINRA’s regulatory costs—the size of the firms measured by firm revenue and the number and role of persons registered with the firm—while seeking to collect a generally comparable amount of revenue from fees associated with each component. This is consistent with the proportional approach to fee increases discussed throughout this filing, which seeks to maintain consistency with FINRA’s existing equitable fee distribution.

Personnel Assessment

The PA is a core regulatory fee designed to correlate to the third critical component of FINRA’s regulatory costs—the number and role of registered persons at a firm. The PA currently is assessed on a three-tiered rate structure: members with one to five registered representatives and principals are assessed \$210 for each such registered person (“Reps” in the table below); there is a \$200 charge for each of the next 20 registered persons (between 6 and 25); and a \$190 charge for each additional registered person beyond 25 registered persons.

Section 1(e) of Schedule A to the FINRA By-Laws sets forth the PA. These rates last increased between 2022 and 2024.⁴⁰ FINRA is proposing the following increases to its PA tier rates between 2026 and 2029:

<u>PA – Proposed Implementation</u>

⁴⁰ See Order Approving SR-FINRA-2020-032, supra note 6, 85 FR 66592.

<u>Tier (No. of Reps)</u>	<u>2024</u>	<u>2025 (no change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Reps 0-5	\$210	\$210	\$245	\$260	\$270	\$295
Reps 6-25	\$200	\$200	\$235	\$250	\$260	\$285
Reps 26 and greater	\$190	\$190	\$225	\$240	\$250	\$275

When the proposed PA rates are fully implemented, they are designed to generate an additional \$52 million in annual revenue by 2029. The proposed PA increases, together with the proposed increases to the use-based fees aligned with the number and role of registered persons at a firm discussed below, are calibrated to preserve the historical proportionality among the core regulatory fees associated with the three main components of FINRA's regulatory costs and collect a generally comparable amount of revenue from fees associated with each component. This is consistent with the proportional approach to fee increases discussed throughout this filing, which seeks to maintain consistency with FINRA's existing equitable fee distribution.

Branch Office Fees

FINRA members are assessed regulatory fees for registered branch offices. These fees are related to firm size and structure. Section 4(a) of Schedule A to the FINRA By-Laws includes a branch office registration fee and a branch office system processing fee upon the initial registration of each branch office as defined in the By-Laws. The initial branch office registration fee is waived for the first branch office registered by a member. In addition, each member is assessed an annual registration fee for each branch office registered by the member. This fee has a tiered regressive rate structure that assesses a

per branch office annual registration fee depending on the number of branch offices the firm has. Currently, each member is assessed an annual registration fee of: (1) \$175, for each of the first 250 branch offices registered by the member; (2) \$150, for each of branch offices 251 to 500 registered by the member; (3) \$125, for each of branch offices 501 to 1,000 registered by the member; (4) \$100, for each of branch offices 1,001 to 2,000 registered by the member; and (5) \$75, for every branch office greater than 2,000 registered by the member. For one branch office per member per year, the annual branch office registration fee and annual branch office system processing fee is waived.

FINRA has not increased the branch office registration fee since 2013.⁴¹ FINRA is proposing to retain the tiered regressive rate structure, but increase the branch office registration fee in 2026 as follows:

⁴¹ See Regulatory Notice 12-32 (June 2012).

<u>Branch Office Registration Fees – Proposed Implementation</u>						
<u>Fee</u>	<u>2024</u> <u>(Current)</u>	<u>2025 (No</u> <u>Change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
FINRA Branch Registration Fee	\$75	\$75	\$105	\$105	\$105	\$105
Annual Registration Fee 1-250 branch offices registered by the member	\$175	\$175	\$245	\$245	\$245	\$245
Annual Registration Fee 251-500 branch offices registered by the member	\$150	\$150	\$210	\$210	\$210	\$210
Annual Registration Fee 501-1000 branch offices registered by the member	\$125	\$125	\$175	\$175	\$175	\$175
Annual Registration Fee 1001-2000 branch offices registered by the member	\$100	\$100	\$140	\$140	\$140	\$140
Annual Registration Fee 2001+ branch offices registered by the member	\$75	\$75	\$105	\$105	\$105	\$105

When the proposed branch office registration fee changes are fully implemented, they are designed to generate \$7 million in annual revenue by 2029.⁴² The proposed rule

⁴² The projected revenue from the proposed increased Branch Office Fees assumes that the number of branch offices will remain at 2024 levels through 2029. Due to the COVID-19 pandemic, FINRA had provided regulatory relief including a temporary suspension of the requirements to maintain updated Form U4 information regarding the office of employment address for registered persons who temporarily relocated due to the pandemic, and the requirement to submit branch office applications on Form BR for any newly opened temporary office locations or space-sharing arrangements. See Regulatory Notice 20-08 (March 2020). In mid-2024, that relief ended and FINRA implemented new Rule 3110.19, which exempts from branch office registration a residential supervisory location (or RSL). An RSL is a private residence at which an associated person engages in specified supervisory activities, subject to certain safeguards and limitations. See Regulatory Notice 24-02 (January 2024). FINRA believes its assumptions are reasonable given the recency of these changes. As noted, if key assumptions change materially, FINRA would consider various modifications as appropriate, including rebates, for example. See supra note 15.

change would retain the same tiered regressive rate structure that assesses a per branch office annual registration fee depending on the number of branch offices of the firm, but would raise the fee associated with each range of branch office numbers. FINRA would continue to waive, for one branch office per member per year, payment of the annual registration fee, but increase the amount of the waiver from \$175 to \$245 to match the new rates.

FINRA has not increased the branch office system processing fee since 2022.⁴³ FINRA is proposing to increase the branch office system processing fee in 2028 as follows:

<u>Branch Office System Processing Fee – Proposed Implementation</u>						
<u>Fee</u>	<u>2024 (Current)</u>	<u>2025 (No Change)</u>	<u>2026 (No Change)</u>	<u>2027 (No Change)</u>	<u>2028</u>	<u>2029</u>
Branch Office System Processing Fee (initial and annual)	\$75	\$75	\$75	\$75	\$105	\$105

When the proposed branch office system processing fee change is fully implemented, it is designed to generate \$4 million in annual revenue by 2029.⁴⁴ FINRA would continue to waive, for one branch office per member per year, payment of the annual branch office system processing fee, but increase the amount of the waiver from \$75 to \$105 to match the new rates. FINRA believes these proposed increases to the

⁴³ See supra note 6.

⁴⁴ See supra note 42.

branch office fees, which relate to firm size and structure, are consistent with the proportional approach to fee increases discussed throughout this filing.

Registration Fees

Registration fees are registered person-level fees that, while use-based, also correlate to the third critical component of FINRA’s regulatory costs—the number and role of registered persons at a firm. Section 4 of Schedule A to the FINRA By-Laws establishes fees connected to FINRA’s operation of the Central Registration Depository (“Web CRD®” or “CRD system”), the central licensing and registration system that FINRA operates for the benefit of FINRA, the SEC, other SROs, state securities regulators, and broker-dealer firms. The CRD system contains the registration records of broker-dealer firms and their associated individuals including their qualification, employment, and disclosure histories; it also facilitates the processing of, among other things, form filings and facilitates the making of fingerprint results available to the appropriate authorized recipients.⁴⁵ The CRD system enables individuals and firms seeking registration with multiple states and SROs to do so by submitting a single form and fee payment.⁴⁶

⁴⁵ Specified information reported to the CRD system is displayed in BrokerCheck®, an electronic system that provides the public with information on the professional background, business practices, and conduct of FINRA members and their associated persons. Investors use BrokerCheck to help make informed choices about the individuals and firms with which they currently conduct or are considering conducting business.

⁴⁶ FINRA outsources fingerprint processing to Sterling Identity (“Sterling”), an FBI-approved channeler that processes fingerprints for members on FINRA’s behalf. This provides for a more efficient and streamlined process with fewer fingerprint rejections, secure electronic transmission of FBI results, and significantly reduced

FINRA last increased associated registration fees between 2022 and 2024.⁴⁷

FINRA has explained that these fees are important to fund activities that help ensure the integrity of information in the CRD system—information critical to FINRA and other regulators, as well as to investors through BrokerCheck—and to support FINRA’s overall regulatory mission.⁴⁸ FINRA is proposing to increase certain registration fees⁴⁹ in 2028 as follows:

<u>Registration Fees – Proposed Implementation</u>						
<u>Fee</u>	<u>2024</u> <u>(current)</u>	<u>2025</u> <u>(no</u> <u>change)</u>	<u>2026</u> <u>(no</u> <u>change)</u>	<u>2027</u> <u>(no</u> <u>change)</u>	<u>2028</u>	<u>2029</u>
Initial/Transfer Registration Form U4 filing ⁵⁰	\$125	\$125	\$125	\$125	\$175	\$175

turn-around times. Sterling assesses and collects all fees for fingerprint collection and processing, including the FBI fee.

⁴⁷ See Order Approving SR-FINRA-2020-032, supra note 6, 85 FR 66592.

⁴⁸ See Securities Exchange Act Release No. 67247 (June 25, 2012), 77 FR 38866 (June 29, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2012-030).

⁴⁹ FINRA also proposes conforming changes to Section 15(g) of Schedule A to the FINRA By-Laws to align this proposed fee change with the same fees for Funding Portal members.

⁵⁰ This fee applies for each initial or transfer Uniform Application for Securities Industry Registration or Transfer (“Form U4”) filed by a member in the CRD system to register an individual. Section 4(b)(1) of Schedule A includes a discount in cases where a member is transferring the registrations of individuals in connection with the acquisition of all or part of another member’s business. The discount ranges from 10 to 50 percent, based on the number of registered personnel being transferred. While FINRA is proposing to increase the registration fee, it is not proposing to make any changes to the discount schedule.

Termination U5 filing	\$50 (plus \$100 if late filed)	\$50 (plus \$100 if late filed)	\$50 (plus \$100 if late filed)	\$50 (plus \$100 if late filed)	\$70 (plus \$140 if late filed)	\$70 (plus \$140 if late filed)
Disclosure review ⁵¹	\$155	\$155	\$155	\$155	\$215	\$215
Electronic Fingerprinting ⁵²	\$20 ⁵³	\$20 ⁵⁴	\$20	\$20	\$28	\$28
Non-Electronic Fingerprinting ⁵⁵	\$30	\$30	\$30	\$30	\$42	\$42
Fingerprinting Processed Through Another SRO	\$30	\$30	\$30	\$30	\$42	\$42

When these proposed registration fee changes are fully implemented, they are designed to generate an additional \$10 million in annual revenue by 2029.

Renewal Late Fee

Members renew their registrations with FINRA, other SROs and states/jurisdictions during the annual renewal program. Section 4(b)(8) of Schedule A to

⁵¹ This fee applies for the additional processing of each initial or amended Form U4, Form U5, or Form BD that includes the initial reporting, amendment, or certification of one or more disclosure events or proceedings.

⁵² This fee applies for processing and posting to the CRD system each set of fingerprints submitted electronically by a member to FINRA, plus any other charge that may be imposed by the United States Department of Justice for processing each set of fingerprints.

⁵³ In 2024, the fee for funding portal members that submit fingerprints electronically is \$15. See Section 15(g) of Schedule A to FINRA By-Laws.

⁵⁴ As discussed below, FINRA proposes a conforming change in 2025 to Section 15(g) of Schedule A to the FINRA By-Laws to align the fee for funding portal members that submit fingerprints electronically with the same fee charged to broker-dealer members.

⁵⁵ This fee applies for processing and posting to the CRD system each set of fingerprints submitted in non-electronic format by a member to FINRA, plus any other charge that may be imposed by the United States Department of Justice for processing each set of fingerprints.

the FINRA By-Laws sets forth the renewal late fee, which applies if a member fails to timely pay the amount indicated on its preliminary annual renewal statement.⁵⁶ Where this late fee applies, FINRA includes it as part of the final statement. Currently, this fee is the greater of 10 percent of the member's final annual renewal assessment or \$100, with a maximum charge of \$5,000. FINRA has not increased the renewal late fee since it was established in 2002.⁵⁷

FINRA is proposing to increase the renewal late fee in 2028 as follows:

<u>Renewal Late Fee – Proposed Implementation</u>						
The Renewal Late Fee is 10 percent of a member's cumulative final renewal statement with the following minimums and maximums:						
<u>Fee</u>	<u>2024 (current)</u>	<u>2025 (no change)</u>	<u>2026 (no change)</u>	<u>2027 (no change)</u>	<u>2028</u>	<u>2029</u>
The minimum late fee FINRA will assess is	\$100	\$100	\$100	\$100	\$140	\$140
The maximum late fee FINRA will assess is	\$5,000	\$5,000	\$5,000	\$5,000	\$7,000	\$7,000

FINRA notes that it collects all applicable renewal fees on behalf of itself and participating regulators, which enables members to submit their total renewal payment to FINRA instead of to each regulator. Among other reasons noted, FINRA believes this proposed fee increase would further encourage members to submit such fees on time.

⁵⁶ Members receive a preliminary annual renewal statement that reflects approved registrations at the time the statement is generated. The statement also includes a date by which members must make full payment available to FINRA.

⁵⁷ See Securities Exchange Act Release No. 46466 (September 6, 2002), 67 FR 58092 (September 13, 2002) (Notice of Filing and Immediate Effectiveness of File No. SR-NASD-2002-100).

When the proposed renewal late fee changes are fully implemented, they are designed to generate an additional \$100,000 in annual revenue by 2029.

Late Disclosure Fee

Related to the registration functions described above, FINRA charges a fee for each day that a new disclosure event or a change in the status of a previously reported disclosure event is not timely filed on an initial or amended Form U5 or an amended Form U4. Section 4(h) of Schedule A to the FINRA By-Laws sets forth the late disclosure fee. This fee is assessed starting on the day following the last date on which the event or change in status was required to be reported.

Timely and complete reporting of all information required by the FINRA By-Laws and rules, as well as the federal securities laws, is critical to investor protection. The SEC, FINRA, other SROs and state securities regulators use the information to make licensing and registration decisions, among other things. FINRA also publishes information in FINRA BrokerCheck, which investors use for researching the professional backgrounds of firms and brokers.

FINRA has not increased the late disclosure fee since 2013.⁵⁸ Currently, disclosures filed more than 60 days following the last date on which the event was required to be reported under FINRA rules account for 50 percent of volume and 78 percent of revenues related to late filing fees.

FINRA is proposing to increase the late disclosure fee⁵⁹ in 2026 as follows:

⁵⁸ See Regulatory Notice 12-32, supra note 41.

⁵⁹ FINRA also proposes conforming changes to Section 15(e) of Schedule A to the FINRA By-Laws to align this proposed fee change with the same fee for Funding Portal members.

<u>Late Disclosure Fee – Proposed Implementation</u>						
<u>Fee</u>	<u>2024 (Current)</u>	<u>2025 (No Change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
First Day	\$100	\$100	\$100	\$100	\$100	\$100
Subsequent Days	\$25	\$25	\$40	\$40	\$40	\$40
Maximum Fee	\$1,575	\$1,575	\$2,460	\$2,460	\$2,460	\$2,460

FINRA believes this proposed fee increase would further encourage firms to file timely and complete initial Forms U4 and U5 and amendments to these forms, while also generating additional revenue as part of the overall proposal to increase fees to fund FINRA’s regulatory mission. When the proposed late disclosure fee changes are fully implemented, they are designed to generate an additional \$3 million in annual revenue by 2029.⁶⁰

System Processing Fee

FINRA currently assesses an annual system processing fee for each of the member’s registered persons. Like the registration fees described above, this fee correlates to the third critical component of FINRA’s regulatory costs—the number and role of registered persons at a firm. Section 4(b)(7) of Schedule A to the FINRA By-Laws sets forth the system processing fee. Under the current fee structure, a flat \$70 fee applies to each registered person of a member. Many registered persons are registered

⁶⁰ Projected revenue from the proposed increased Late Disclosure Fees assumes approximately 53% late filings based on the historical average (2018-2023) and is based on other reasonably conservative assumptions using a variety of information points, including historical data and anticipated trends. See supra note 15.

with one or more securities regulators (i.e., with jurisdictions as a broker-dealer agent and with SROs as a representative or principal).⁶¹ The median number of other SROs and jurisdictions with which each registered person of a member is registered, in addition to their FINRA registration, is 11, with an average of 20.

FINRA's costs and resources allocated to processing this information for members' registered persons depends, in part, on the number of securities regulators with which each registered person is registered (whether as a broker-dealer agent with one or more jurisdictions or as a representative or principal with one or more SROs). To account for this variability, FINRA proposes to replace the current flat fee structure with a tiered rate structure in 2026 as described below. In addition, FINRA proposes to increase the proposed tiers in 2028. These proposed changes are summarized as follows:

<u>System Processing Fee – Proposed Implementation</u>						
Number of securities regulators with which each registered person of a member is registered, excluding registration as an investment adviser representative	<u>2024</u> <u>(current)</u>	<u>2025</u> <u>(no change)</u>	<u>2026</u>	<u>2027</u> <u>(no change)</u>	<u>2028</u>	<u>2029</u> <u>(no change)</u>
1-5	\$70	\$70	\$70	\$70	\$100	\$100
6-20	\$70	\$70	\$95	\$95	\$125	\$125
21-40	\$70	\$70	\$110	\$110	\$140	\$140
41+	\$70	\$70	\$125	\$125	\$155	\$155

⁶¹ The term broker-dealer agent (or AG) is the designation used in Form U4 to identify a person who has been approved to sell securities in a particular jurisdiction.

The fee would be calculated based on the total number of securities regulators with which each registered person of a member is registered (whether as a broker-dealer agent with one or more jurisdictions or as a representative or principal with one or more SROs). A registered person's registration as an investment adviser representative would not be considered.

FINRA believes this use-based fee will support FINRA's overall regulatory mission while reflecting the resources FINRA allocates to its securities licensing and registration operations for registered persons of members. Further, as noted above, this fee relates to the number and role of registered persons at a firm, which is one of the three critical components of FINRA's regulatory costs.

FINRA proposes to implement the proposed tiered rate structure in 2026. To allow members additional time to adjust and plan, FINRA proposes to defer implementation of proposed increases to this fee until 2028. When this proposed rule change, including implementation of the tiered structure and the proposed increase are fully implemented, it is designed to generate an additional \$31 million in annual revenue by 2029.

Qualification Examination Fees

Like registration fees, qualification examination fees are registered person-level fees that, while use-based, also correlate to the third critical component of FINRA's regulatory costs—the number and role of registered persons at a firm. Section 4(c) of Schedule A to the FINRA By-Laws sets forth the fees associated with the qualification examinations that FINRA administers. Persons engaged in the investment banking or securities business of a FINRA member who function as principals or representatives are

required to register with FINRA in each category of registration appropriate to their functions. Such individuals must pass an appropriate qualification examination or obtain a waiver before their registration can become effective. These qualification examinations cover a broad range of subjects regarding financial markets and products, individual responsibilities, securities industry rules, and regulatory structure.

FINRA develops, maintains, and delivers all qualification examinations for individuals who are registered or seeking registration with FINRA.⁶² FINRA last increased its examination fees between 2022 and 2024.⁶³ FINRA is proposing to increase its examination fees in 2026 as follows:

<u>Qualification Examination Fees – Proposed Implementation</u>						
<u>Examination Number and Name</u>	<u>2024 (current)</u>	<u>2025 (no change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Securities Industry Essentials (SIE) Examination	\$80	\$80	\$100	\$100	\$100	\$100
Series 4: Registered Options Principal Examination	\$155	\$155	\$200	\$200	\$200	\$200
Series 6: Investment Company Products and Variable Contracts Representative Examination	\$75	\$75	\$100	\$100	\$100	\$100
Series 7: General Securities Representative Examination	\$300	\$300	\$395	\$395	\$395	\$395

⁶² FINRA also administers and delivers examinations sponsored (i.e., developed) by the Municipal Securities Rulemaking Board (“MSRB”) and other SROs, the North American Securities Administrators Association, and the Federal Deposit Insurance Corporation. The fees charged for these examinations are set according to contracts with the examination sponsors, and FINRA is not proposing any changes to fees associated with those examinations at this time.

⁶³ See Order Approving SR-FINRA-2020-032, supra note 6, 85 FR 66592.

Series 9: General Securities Sales Supervisor Examination – Options Module	\$130	\$130	\$175	\$175	\$175	\$175
Series 10: General Securities Sales Supervisor Examination – General Module	\$175	\$175	\$235	\$235	\$235	\$235
Series 14: Compliance Official Examination	\$350	\$350	\$450	\$450	\$450	\$450
Series 16: Supervisory Analyst Examination	\$245	\$245	\$325	\$325	\$325	\$325
Series 22: Direct Participation Programs Representative Examination	\$60	\$60	\$100	\$100	\$100	\$100
Series 23: General Securities Principal Examination – Sales Supervisor Module	\$105	\$105	\$135	\$135	\$135	\$135
Series 24: General Securities Principal Examination	\$175	\$175	\$235	\$235	\$235	\$235
Series 26: Investment Company Products and Variable Contracts Principal Examination	\$150	\$150	\$200	\$200	\$200	\$200
Series 27: Financial and Operations Principal Examination	\$175	\$175	\$235	\$235	\$235	\$235
Series 28: Introducing Broker-Dealer Financial and Operations Principal Examination	\$150	\$150	\$195	\$195	\$195	\$195
Series 39: Direct Participation Programs Principal Examination	\$100	\$100	\$200	\$200	\$200	\$200
Series 57: Securities Trader Examination	\$80	\$80	\$105	\$105	\$105	\$105
Series 79: Investment Banking Representative Examination	\$300	\$300	\$395	\$395	\$395	\$395
Series 82: Private Securities Offering Representative Examination	\$60	\$60	\$100	\$100	\$100	\$100

Series 86: Research Analyst Examination -- Analysis	\$225	\$225	\$295	\$295	\$295	\$295
Series 87: Research Analyst Examination -- Regulatory	\$150	\$150	\$195	\$195	\$195	\$195
Series 99: Operations Professional Examination	\$60	\$60	\$100	\$100	\$100	\$100

FINRA is proposing a one-time fee increase across examinations in 2026 designed to generate an additional \$14 million in revenue across all examinations by 2029. In addition, FINRA has determined the amount of each examination fee increase based on the frequency with which the examination is administered, as well as the average fee per hour of examination length. Examinations that are administered more frequently or are longer in duration typically require more effort and cost to develop, maintain, and update. As a result, FINRA is generally proposing greater increases for those examinations, and smaller increases for others to preserve the broad and equitable distribution of proposed fee increases, as discussed throughout this filing.

Continuing Education Regulatory Element Fee

Continuing education fees are also registered person-level fees that, while use-based, correlate to the third critical component of FINRA's regulatory costs—the number and role of registered persons at a firm. In conjunction with other SROs and the Securities Industry/Regulatory Council on Continuing Education, FINRA administers the continuing education (CE) program for the securities industry.⁶⁴ The Regulatory Element of the CE program provides training on significant rule changes and other regulatory

⁶⁴ See FINRA Rule 1240.

developments relevant to each registration category. Registered persons must complete the Regulatory Element annually by December 31 for each registration that they hold.⁶⁵

Section 4(f) of Schedule A to the FINRA By-Laws sets forth the fees associated with the Regulatory Element requirement. FINRA has not increased the fee for the web-based delivery of the Regulatory Element since it was established in 2015.⁶⁶ FINRA is proposing to increase the Regulatory Element fee in 2026 as follows:

<u>Continuing Education Fee – Proposed Implementation</u>						
<u>Fee</u>	<u>2024 (Current)</u>	<u>2025 (No Change)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Continuing Education	\$18	\$18	\$25	\$25	\$25	\$25

When the proposed regulatory element fee rate is fully implemented, it is designed to generate an additional \$4 million in annual revenue by 2029.

Select Use-Based Fees

Corporate Financing Private Placement Review Fee

⁶⁵ See FINRA Rule 1240; see also Securities Exchange Act Release No. 93097 (September 21, 2021), 86 FR 53358 (September 27, 2021) (Order Approving File No. SR-FINRA-2021-015).

⁶⁶ See Securities Exchange Act Release No. 75581 (July 31, 2015), 80 FR 47018 (August 6, 2015) (Order Approving File No. SR-FINRA-2015-015). After FINRA adopted amendments to require registered persons to complete the Regulatory Element of CE annually rather than every three years, FINRA revised the Regulatory Element fee from a \$55 fee paid once every three years, to an \$18 fee paid annually. See Securities Exchange Act Release No. 93928 (January 7, 2022), 87 FR 2193, 2194 (January 13, 2022) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2021-034). Thus, the Regulatory Element fee has not substantially changed since 2015.

FINRA Rule 5122 (Private Placements of Securities Issued by Members) imposes requirements regarding disclosure, filing, and use of offering proceeds for members that sell a private placement of securities issued by a member or a control entity, subject to various exemptions. Pursuant to FINRA Rule 5122, members that offer or sell their own securities or those of a control entity must file with FINRA’s Corporate Financing Department (“Corporate Financing”) a private placement memorandum, term sheet or other offering document and any retail communication that promotes or recommends the member private offering at or prior to the first time the documents are provided to any prospective investor.

Its companion rule, FINRA Rule 5123 (Private Placement of Securities), requires members that sell any other type of private placement to file with Corporate Financing a copy of any private placement memorandum, term sheet or other offering document, and any retail communication that promotes or recommends the private placement. Such filing must occur within 15 calendar days of the first sale, subject to various exemptions.

FINRA has historically performed the review of such filings at no cost since the program was created approximately 15 years ago.⁶⁷ This program requires substantial resources, and the volume of filings has increased significantly in recent years.⁶⁸ FINRA

⁶⁷ FINRA Rule 5122 became effective on June 17, 2009; FINRA Rule 5123 became effective on December 3, 2012.

⁶⁸ See Regulatory Notice 23-08 (May 2023) (“In recent years, the unregistered offering market outpaced the public market. . . . In 2021, for example, members submitted over 3,800 unique filings for private placements pursuant to FINRA Rules 5122 and 5123, which require filings for private placements generally sold to individuals, in comparison to roughly 2,000 submissions in 2013.”).

thus proposes to establish the following fees related to private placement review in July 2025 as follows:

<u>Corporate Financing Private Placement Review Fee – Proposed Implementation</u>						
<u>Private Placements (Offerings >\$25M)</u>	<u>2024 (Current)</u>	<u>2025 (Effective 7/1/25)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Flat Fee	\$0	\$300	\$300	\$300	\$300	\$300
% of Offering	0%	0.008%	0.008%	0.008%	0.008%	0.008%
Offering Cap	\$0	\$500 million	\$500 million	\$500 million	\$500 million	\$500 million

The proposed fee is designed to be similar to the current fee for public offering reviews. Like the public offering review fee, this proposed fee would consist of both a flat fee and a percentage of the maximum offering proceeds. However, to reduce the impact on smaller issuers and broker-dealers, FINRA proposes to apply this fee only to private placement offerings of greater than \$25 million and to cap the fee at \$40,300 (0.008% of \$500,000,000 offering + \$300 flat fee). In general, FINRA believes that such fees would be paid for by, or passed through to, issuers.⁶⁹ This proposed new use-based fee is structured to take into account associated types of costs, including the substantial resources such reviews require.⁷⁰ When the proposed new fee for private placement

⁶⁹ FINRA's belief is informed by its experience with the public offering fee, described below, and based on discussions with FINRA advisory committees and other industry participants.

⁷⁰ As discussed above, when applying use-based fees, FINRA takes into account direct costs for the program, indirect costs for the program, and a contribution to FINRA's overall regulatory operations. See supra note 7 and accompanying text.

review is fully implemented, it is designed to generate \$6 million in annual revenue by 2029.

Corporate Financing Public Offering Review Fee

Corporate Financing reviews the underwriting terms and arrangements of proposed public offerings of securities for compliance with the requirements of FINRA Rule 5110 (Corporate Financing Rule—Underwriting Terms and Arrangements). Pursuant to Rule 5110, no member firm or person associated with a member firm may participate in a public offering subject to the rule, or to FINRA Rules 5121 (Public Offerings of Securities With Conflicts of Interest) and 2310 (Direct Participation Programs), unless the documents and information specified in the rule have been filed with and reviewed by Corporate Financing. The documents Corporate Financing reviews include registration statements, underwriting agreements, engagement letters and other relevant supporting documentation for public offerings. Corporate Financing’s review is complementary to the SEC’s registration process, which covers a larger set of filings than FINRA’s program.⁷¹

Section 7 of Schedule A to the FINRA By-Laws sets forth the fees associated with filing documents pursuant to the Corporate Financing Rule. It currently provides for a flat fee of \$500 plus .015% of the proposed maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), with a cap of

⁷¹ The SEC’s current filing fee rate for filings made pursuant to Sections 6(b) of the Securities Act of 1933 and Sections 13(e) and 14(g) of the Exchange Act is \$147.60 per \$1,000,000. See <https://www.sec.gov/edgar/filer/filing-fees/filing-fee-rate>.

\$225,500; or a fee of \$225,500 for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer (“WKSI”) as defined in Securities Act Rule 405. The fee associated with any amendment or other change to the documents initially filed with Corporate Financing is also subject to the current \$225,500 cap. FINRA has not raised the fee cap since 2012.⁷²

FINRA is proposing to increase and modify the fee cap beginning in July 2025 as follows:

<u>Corporate Financing Public Offering Review Fee Cap – Proposed Implementation</u>						
<u>IPO</u>	<u>2024</u> <u>(Current)</u>	<u>2025</u> <u>(Effective</u> <u>7/1/25)</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Non-WKSI	\$225,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000
WKSI	\$225,000	\$270,000	\$324,000	\$389,000	\$467,000	\$560,000

This proposed rule change would raise the fee cap to \$1,125,000, which would account for the significant growth in the size of offerings since the cap was last raised in 2012. However, for WKSI, the cap would be raised to \$560,000 over a period of five years. FINRA notes that raising the caps would also create more consistency with the SEC IPO review fee, which has no cap.⁷³ FINRA projects that increasing the cap as proposed would capture 81% of the incremental revenues if there were no cap while bounding the impact on WKSI whose offerings tend to be less resource intensive for Corporate Financing to review. FINRA believes such fees are and would continue to be

⁷² See Securities Exchange Act Release No. 67241 (June 22, 2012), 77 FR 38698 (June 28, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2012-029); see also Regulatory Notice 12-32 (June 2012).

⁷³ See supra note 71.

paid for by, or passed through to, issuers.⁷⁴ When the proposed fee increase is fully implemented, it is designed to generate an additional \$31 million in annual revenue by 2029.⁷⁵

Advertising Regulation Review Fee

One way that FINRA protects investors is by having its Advertising Regulation Department review specified broker-dealers' communications for compliance with FINRA's communications with the public rules, and similar rules of⁷⁶ the SEC, MSRB and Securities Investor Protection Corporation. FINRA rules require that member communications be based on principles of fair dealing and good faith, be fair and balanced, and provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry or service. Among other things, FINRA rules prohibit member firm communications from including false, exaggerated, unwarranted or misleading statements or claims.

Section 13 of Schedule A to the FINRA By-Laws sets forth the fees associated with review of communications filed with FINRA. Despite rising costs to administer the Advertising Regulation Department review program, FINRA has not increased these fees

⁷⁴ See supra note 69.

⁷⁵ The proposed rule change would remove the language "on an automatically effective Form S-3 or F-3 registration statement" because WKSIs may use other registration forms. See, e.g., Securities Offering Reform for Closed-End Investment Companies, Investment Company Act Release No. 33836 (April 8, 2020), 85 FR 33290 (June 1, 2020).

⁷⁶ See generally FINRA Rule 2200 Series. FINRA also will review communications filed voluntarily.

since 2012.⁷⁷ FINRA is proposing an increase to the regular review charge in 2025 as follows:

<u>Advertising Regulation Review – Proposed Implementation</u>						
<u>Fee</u>	<u>2024</u> <u>(Current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Regular Review Charge (non-expedited)	\$125	\$300	\$300	\$300	\$300	\$300

When the proposed fee increase is fully implemented, it is designed to generate an additional \$11 million in annual revenue by 2029.⁷⁸ Under the proposed rule change, the \$600 expedited fee would not change.

Dispute Resolution Services Arbitration Fees

DRS operates the largest securities arbitration forum in the United States, to assist in the resolution of disputes involving customers, members and associated persons. As discussed in turn below, FINRA proposes to raise the (1) hearing session fees, (2) filing fees, (3) member surcharge, and (4) member process fee, as set forth in the Code of Arbitration Procedure for Customer Disputes (“Customer Code”) and Code of Arbitration Procedure for Industry Disputes (“Industry Code”) (together, the “Codes”).⁷⁹

⁷⁷ See Securities Exchange Act Release No. 67239 (June 22, 2012), 77 FR 38692 (June 28, 2012) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2012-028).

⁷⁸ FINRA currently charges a \$10 fee for the review of each printed page or webpage in excess of 10 pages, and for each minute of tape reviewed in excess of 10 minutes of video or audio media. This would not change under the proposed rule change.

⁷⁹ The Customer Code is the FINRA Rule 12000 Series; the Industry Code is the FINRA Rule 13000 Series. The proposed fee increases described, below, would be implemented in both Codes.

FINRA believes that the cost of arbitration should be borne by the users of the forum, without imposing a significant barrier to public customers who bring arbitration claims to the forum. Thus, the current DRS arbitration fees are designed to be borne 85 percent by members and 15 percent by customers.⁸⁰ The proposed rule change would maintain that pricing structure. It would also maintain a sliding scale fee structure in which the member surcharge and process fees increase across the board, while the hearing session fees and filing fees increase more for higher value claims. Taken together, the proposed increase in DRS' arbitration fees would aim to partially recover increasing costs to operate the forum, without placing an undue burden on users of the forum, particularly customers or claimants with small claims. When the proposed DRS arbitration fee increases are fully implemented, they are designed to generate an additional \$10 million in annual revenue by 2029.

Hearing Session Fees

Under FINRA Rules 12902 and 13902, hearing session fees are charged for each hearing session based on the amount in dispute. In the award, the panel determines the amount of each hearing session fee that each party must pay. The arbitrators may apportion the fees in any manner, including assessing the entire amount against one party.⁸¹

FINRA proposes to raise hearing session fees in 2025 as follows:

⁸⁰ See Securities Exchange Act Release No. 90227 (October 20, 2020), 85 FR 67794 (October 26, 2020) (Notice of Filing File No. SR-FINRA-2020-035).

⁸¹ See FINRA Rules 12902(a)(1) and 13902(a)(1).

<u>Hearing Session Fees – Proposed Implementation</u>				
	<u>2024 (current)</u>		<u>2025-2029</u>	
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>Hearing Session w/ One Arbitrator</u>	<u>Hearing Session w/ Three Arbitrators</u>	<u>Hearing Session w/ One Arbitrator</u>	<u>Hearing Session w/ Three Arbitrators</u>
Up to \$2,500	\$50	N/A	\$50	N/A
\$2,500.01 to \$5,000	\$125	N/A	\$125	N/A
\$5,000.01 to \$10,000	\$250	N/A	\$250	N/A
\$10,000.01 to \$25,000	\$450	N/A	\$450	N/A
\$25,000.01 to \$50,000	\$450	\$600	\$450	\$600
\$50,000.01 to \$100,000	\$450	\$750	\$450	\$750
\$100,000.01 to \$500,000	\$450	\$1,125	\$675	\$1,690
\$500,000.01 to \$1,000,000	\$450	\$1,325	\$675	\$1,990
\$1,000,000.01 to \$5,000,000	\$450	\$1,435	\$675	\$2,160
Over \$5,000,000	\$450	\$1,575	\$675	\$2,370
Non-Monetary / Not Specified	\$450	\$1,150	\$675	\$1,725

To minimize the impact of the proposed rule change on customers or claimants with small claims, the proposed fee increase would only apply to claims of more than \$100,000 and claims for non-monetary or unspecified damages. The tiered structure of this fee would not change under the proposed rule change.

FINRA notes the hearing session fee may not be assessed under certain circumstances. For example, if the parties timely settle the arbitration, the parties will not be assessed hearing session fees.⁸² During settlement negotiations, parties have the

⁸² See FINRA Rules 12701 and 13701.

opportunity to determine how to share any hearing session fees, if hearings are held.⁸³

For cases that result in an award, the panel has discretion to assess hearing session fees as part of the award,⁸⁴ which allows them to consider numerous factors to determine each party's appropriate share and assign the costs accordingly. The proposed rule change would not change a party's ability to settle or arbitrators' discretion to assess the hearing session fees.

Filing Fees

Filing Fees Paid by Customers, Associated Persons or Other Non-Members

Filing fees are due when a claim is filed. FINRA Rule 12900(a) sets forth the filing fee schedule for customers, associated persons and other non-members who file a claim, counterclaim, cross claim or third party claim in a customer dispute. FINRA Rule 13900(a) sets forth the filing fee schedule for associated persons who file a claim, counterclaim, cross claim or third party claim in an industry dispute. The filing fee is based on the claim amount or type of damages requested.

FINRA proposes to raise filing fees in 2025 as follows:

<u>Filing Fee (Customers, Associated Persons, and other Non-Members) – Proposed Implementation</u>						
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>2024 (current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$.01 to \$1,000	\$50	\$50	\$50	\$50	\$50	\$50
\$1,000.01 to \$2,500	\$75	\$75	\$75	\$75	\$75	\$75
\$2,500.01 to \$5,000	\$175	\$175	\$175	\$175	\$175	\$175

⁸³ See FINRA Rules 12701(b) and 13701(b).

⁸⁴ See FINRA Rules 12902(a)(1) and 13902(a)(1).

\$10,000.01 to \$25,000	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050	\$1,050
\$25,000.01 to \$50,000	\$1,450	\$1,450	\$1,450	\$1,450	\$1,450	\$1,450
\$50,000.01 to \$100,000	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750
\$100,000.01 to \$500,000	\$2,125	\$2,660	\$2,660	\$2,660	\$2,660	\$2,660
\$500,000.01 to \$1,000,000	\$2,650	\$3,320	\$3,320	\$3,320	\$3,320	\$3,320
\$1,000,000.01 to \$5,000,000	\$3,550	\$4,440	\$4,440	\$4,440	\$4,440	\$4,440
Over \$5,000,000	\$4,200	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250
Non-Monetary/Not Specified	\$1,800	\$2,250	\$2,250	\$2,250	\$2,250	\$2,250

Partial Refund of Filing Fee

If a claim is settled or withdrawn more than 10 days before the date of the hearing on the merits, a party paying a filing fee will receive a partial refund of the filing fee in the amount specified under FINRA Rule 12900(c) for customer cases and FINRA Rule 13900(c) for industry cases. FINRA proposes to increase the partial filing fee refund in 2025 as follows:

<u>Partial Filing Fee Refund – Proposed Implementation</u>						
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>2024 (current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$.01 to \$1,000	\$25	\$25	\$25	\$25	\$25	\$25
\$1,000.01 to \$2,500	\$50	\$50	\$50	\$50	\$50	\$50
\$2,500.01 to \$5,000	\$125	\$125	\$125	\$125	\$125	\$125
\$5,000.01 to \$10,000	\$250	\$250	\$250	\$250	\$250	\$250
\$10,000.01 to \$25,000	\$300	\$300	\$300	\$300	\$300	\$300
\$25,000.01 to \$50,000	\$450	\$450	\$450	\$450	\$450	\$450
\$50,000.01 to \$100,000	\$750	\$750	\$750	\$750	\$750	\$750
\$100,000.01 to \$500,000	\$1,125	\$1,410	\$1,410	\$1,410	\$1,410	\$1,410
\$500,000.01 to \$1,000,000	\$1,300	\$1,625	\$1,625	\$1,625	\$1,625	\$1,625
\$1,000,000.01 to \$5,000,000	\$1,400	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750
Over \$5,000,000	\$1,500	\$1,875	\$1,875	\$1,875	\$1,875	\$1,875

Non-Monetary/Not specified	\$1,200	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
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Member Surcharge

FINRA assesses a surcharge against each member that (a) files a claim, counterclaim, cross claim or third party claim under the Codes; (b) is named as a respondent in a claim, counterclaim, cross claim, or third party claim filed and served under the Codes; or (c) employed, at the time the dispute arose, an associated person who is named as a respondent in a claim, counterclaim, cross claim, or third party claim filed and served under the Codes.

FINRA Rules 12901 and 13901 set forth the schedule of the member surcharge, which is assessed based on the amount of the claim, exclusive of interest and expenses. The member is assessed one surcharge per arbitration case.⁸⁵ Member surcharges are intended to allocate the costs of administering the arbitration case to the firms that are involved in those cases. Thus, each member is assessed a member surcharge, based on the aggregate claim amount, when it is brought into the case, whether through a claim, counterclaim, cross claim or third party claim. The member surcharge is the responsibility of the member party and cannot be allocated to any other party (“non-allocable”).

FINRA proposes to increase the member surcharge in 2025 as follows:

<u>Member Surcharge – Proposed Implementation</u>						
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>2024 (current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$.01 to \$5,000	\$150	\$165	\$165	\$165	\$165	\$165

⁸⁵ See FINRA Rules 12901(a)(6) and 13901(f).

\$5,000.01–\$10,000	\$325	\$360	\$360	\$360	\$360	\$360
\$10,000.01–\$25,000	\$450	\$495	\$495	\$495	\$495	\$495
\$25,000.01–\$50,000	\$750	\$975	\$975	\$975	\$975	\$975
\$50,000.01–\$100,000	\$1,100	\$1,430	\$1,430	\$1,430	\$1,430	\$1,430
\$100,000.01–\$250,000	\$1,700	\$2,210	\$2,210	\$2,210	\$2,210	\$2,210
\$250,000.01–\$500,000	\$2,025	\$2,640	\$2,640	\$2,640	\$2,640	\$2,640
\$500,000.01–\$1,000,000	\$2,625	\$3,420	\$3,420	\$3,420	\$3,420	\$3,420
\$1,000,000.01–\$5,000,000	\$3,200	\$4,800	\$4,800	\$4,800	\$4,800	\$4,800
\$5,000,000.01–\$10,000,000	\$3,850	\$5,775	\$5,775	\$5,775	\$5,775	\$5,775
Over \$10,000,000	\$4,325	\$6,490	\$6,490	\$6,490	\$6,490	\$6,490
Non-Monetary/Not Specified	\$2,000	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600

The member surcharge would remain non-allocable under the proposed rule change and, therefore, would not result in any additional costs to other parties to the arbitration, including customers.

Member Process Fee

Under the Codes, each member that is a party to an arbitration or employed an associated person who is a party to an arbitration in which more than \$25,000, exclusive of interest and expenses, is in dispute must pay a non-refundable process fee.⁸⁶

FINRA Rules 12903 and 13903 set forth the process fee schedule. FINRA assesses the member the applicable process fee when the parties are sent the arbitrator lists or notification of the hearing. Like the member surcharge, the process fee is non-allocable to other parties to the arbitration.⁸⁷

⁸⁶ See FINRA Rules 12903 and 13903. If a claim amount is \$25,000 or less, the member would not be assessed any process fees.

⁸⁷ See FINRA Rules 12903(d) and 13903(d). See also FINRA Rules 12701(b) and 13701(b).

FINRA proposes to increase the process fee in 2025 as follows:

<u>Member Process Fee – Proposed Implementation</u>						
<u>Amount of Claim (exclusive of interest and expenses)</u>	<u>2024 (current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$.01–\$25,000	\$0	\$0	\$0	\$0	\$0	\$0
\$25,000.01–\$50,000	\$1,750	\$2,275	\$2,275	\$2,275	\$2,275	\$2,275
\$50,000.01–\$100,000	\$2,250	\$2,925	\$2,925	\$2,925	\$2,925	\$2,925
\$100,000.01–\$250,000	\$3,250	\$4,225	\$4,225	\$4,225	\$4,225	\$4,225
\$250,000.01–\$500,000	\$3,875	\$5,040	\$5,040	\$5,040	\$5,040	\$5,040
\$500,000.01– \$1,000,000	\$5,225	\$6,800	\$6,800	\$6,800	\$6,800	\$6,800
\$1,000,000.01– \$5,000,000	\$6,375	\$9,570	\$9,570	\$9,570	\$9,570	\$9,570
\$5,000,000.01– \$10,000,000	\$7,050	\$10,575	\$10,575	\$10,575	\$10,575	\$10,575
Over \$10,000,000	\$7,300	\$10,950	\$10,950	\$10,950	\$10,950	\$10,950
Non-Monetary/Not Specified	\$3,850	\$5,005	\$5,005	\$5,005	\$5,005	\$5,005

The member process fee would remain non-allocable under the proposed rule change and, therefore, would not result in any additional costs to other parties to the arbitration, including customers.

Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time Fee

Section 8 of Schedule A to the FINRA By-Laws governs the service charge for each extension of time request pursuant to Sections 220.4(c) and 220.8(d) of Regulation T⁸⁸ of the Board of Governors of the Federal Reserve System (“Regulation T”) and

⁸⁸ 12 CFR 220.4(c) and 220.8(d), respectively.

Exchange Act Rule 15c3-3(n).⁸⁹ FINRA has not increased this fee since 2006.⁹⁰ FINRA proposes to raise the fee in 2025 as follows:

<u>Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time – Proposed Implementation</u>					
<u>2024</u> <u>(Current)</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
\$4 per request	\$8 per request	\$8 per request	\$8 per request	\$8 per request	\$8 per request

Based on current annual extension filing volumes, the current fee does not cover the estimated personnel and technology costs necessary to process extension requests. The proposal to increase the fee would recover some of those costs. When the proposed service charge for Regulation T and Exchange Act Rule 15c3-3(n) requests for extension of time increases are fully implemented, they are designed to generate an additional \$640,000 in annual revenue by 2029.

Further, to streamline Section 8, FINRA proposes to eliminate current paragraph (a), which is not needed in light of the specific fee amount language set forth in paragraph (b) of that Section. The proposed rule change would also make minor technical corrections. As such, the proposed rule change would amend Section 8 to read: “The service charge for processing each initial extension of time request and for all subsequent extension of time requests (1) involving the same transaction under

⁸⁹ 17 CFR 240.15c3-3.

⁹⁰ See Securities Exchange Act Release No. 53982 (June 14, 2006), 71 FR 35720 (June 21, 2006) (Notice of Filing and Immediate Effectiveness of File No. SR-NASD-2006-063). See also Notice to Members 06-30 (June 2006).

Regulation T or (2) involving an extension of time previously granted pursuant to SEA Rule 15c3-3(n) shall be \$8.00 per request.”

Proposed Conforming Changes to Select Funding Portal Member Fees

Section 15 of Schedule A to the FINRA By-Laws sets forth the fees that govern funding portals that are FINRA members. These fees became effective in 2016. At the time they were proposed, the funding portal fees related to eligibility proceedings and fingerprint processing, among others, were “identical to those charged to broker-dealer members.”⁹¹ Though amendments to the fees charged to broker-dealer members related to eligibility proceedings and fingerprint processing have since occurred, those same fees for funding portal members have not been amended, and thus, are no longer aligned.

This proposed rule change would amend Section 15(f)(1) and Section 15(g) to conform the fees for members that are funding portals with the same fees that are charged to broker-dealer members. Specifically, in 2025, the proposed rule change would raise the funding portal member fee for filing an application to initiate eligibility proceedings from \$1,500 to \$5,000 to conform with the same fee that currently applies to broker-dealer members. Also in 2025, the proposed rule change would raise the funding portal member fee for fingerprints submitted electronically from \$15 to \$20 to conform with the same fee that currently applies to broker-dealer members.⁹²

FINRA has filed the proposed rule change for immediate effectiveness.

Implementation of the proposed rule change will be phased in gradually over a five-year

⁹¹ See Securities Exchange Act Release No. 76238 (October 22, 2015), 80 FR 66342 (October 28, 2015) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2015-041).

⁹² See supra note 54.

period beginning on January 1, 2025, with full implementation of all proposed fee changes by 2029.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(5) of the Act,⁹³ which requires, among other things, that FINRA rules provide for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system that FINRA operates or controls. FINRA further believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act, which requires, among other things, that FINRA rules are not designed to permit unfair discrimination between customers, issuers, brokers or dealers.⁹⁴

Reasonableness of the Proposed Fees

As discussed above, FINRA's longstanding approach to funding employs a variety of fees designed to meet FINRA's overall costs. As a not-for-profit SRO with a diverse membership, FINRA designs its mix of fees to seek recovery of its overall regulatory costs in a manner that is fair, reasonable, and equitably allocated among FINRA's members and users of FINRA's services. As FINRA has explained in the past, it is not feasible to associate a direct affiliated revenue stream for each of its programs (for example, FINRA collects no revenues in connection with its examinations of members), and thus numerous operations and services must be funded by other revenue sources, which include both core regulatory fees and other use-based fees. FINRA

⁹³ 15 U.S.C. 78o-3(b)(5).

⁹⁴ 15 U.S.C. 78o-3(b)(6).

continues to believe that its overall Commission-approved cost-based pricing structure is reasonable, achieves general equity across its membership, and correlates fees with those firm components that drive FINRA's regulatory costs to the extent feasible.

The reasonableness of this proposal is reinforced by three key cost discipline mechanisms: oversight, transparency, and rebates.

First, FINRA's funding and operations are subject to several layers of oversight, including by the FINRA Board of Governors⁹⁵ and the Commission. As discussed in FINRA's 2024 annual budget summary, FINRA's efforts to manage its expenses responsibly while appropriately funding its mission includes Board oversight of its annual budget, compensation, and capital initiatives. This oversight is spearheaded by key Board committees (such as its Finance, Operations and Technology Committee), and includes requirements for Board or relevant Committee approval with respect to various financial matters, such as the annual budget, the allocation and use of fine monies, the incurring of any expenses above certain pre-established thresholds, the amount of any annual merit or incentive compensation, and the compensation of certain key employees. The Board also relies on expert external consultants where appropriate. Notably, this Board oversight complements various staff level controls over routine costs, including expense policies that are enforced with systemic checks and escalating management approval requirements for expense requests, with the effectiveness of these policies further subject to review by FINRA's Internal Audit Department.

⁹⁵ The FINRA Board of Governors is composed of a mix of public and industry representatives and uses its diverse expertise to oversee management in the administration of FINRA's affairs and the promotion of FINRA's welfare, objectives, and its public service mission to protect investors and uphold the integrity of markets.

FINRA is also extensively supervised by the Commission throughout the year. The SEC's Division of Examinations maintains dedicated staff as part of its FINRA and Securities Industry Oversight ("FSIO") program who are devoted exclusively to overseeing FINRA and the MSRB—the two not-for-profit regulatory SROs—including with respect to FINRA's overall financial management and the adequacy of the resources devoted to its regulatory programs. In addition, rules or fees adopted by FINRA are subject to review by the Commission's Division of Trading and Markets. The Commission's oversight of FINRA, in turn, is itself subject to Congressional oversight and evaluation by the United States Government Accountability Office ("GAO") every three years. By statute, the GAO evaluates ten specific aspects of the Commission's oversight of FINRA, including FINRA governance, executive compensation, and the use of funding to support FINRA's mission, including the methods and sufficiency of funding, how FINRA invests funds pending use, and the impact of these aspects on FINRA's regulatory enforcement. The GAO reports the results of its evaluation to Congress.⁹⁶

Second, FINRA's commitment to reasonable funding in support of its mission is further reinforced by the transparency it has committed to provide on an ongoing basis—pursuant to its Guiding Principles—regarding its financial performance. Each year, FINRA publishes an extensive Annual Financial Report regarding its operations, prepared in accordance with GAAP. In addition, FINRA publishes annual reports on its budget and its use of fine monies. FINRA's Board also reviews and affirms its Financial

⁹⁶ See GAO Report to Congressional Committees (November 2023), available at <https://www.gao.gov/assets/d24106578.pdf>.

Guiding Principles bi-annually and re-publishes these as well. FINRA also files with the IRS the Form 990 mandated for all not-for-profit organizations. Collectively, these reports provide extensive and comprehensive information regarding FINRA's policies and operations with respect to its budgets, revenues, costs, financial reserves, use of fine monies, capital and strategic initiatives, and compensation of senior executives, among other information. FINRA maintains a dedicated webpage that consolidates its annual reports in a readily accessible place.⁹⁷

Third, as a not-for-profit organization, FINRA is committed to aligning its revenues with its mission-driven costs. If revenues exceed costs on a sustained basis, and FINRA's reserves are sustained appropriately, FINRA will assess the merit of providing rebates. This approach helps ensure that the revenues from these proposed fee changes will not exceed FINRA's reasonable regulatory costs and reserve needs on an ongoing basis. As discussed above, FINRA will continue to be guided by its historical approach to rebates if its revenue in future years exceeds its costs and reserves needs by a material amount.

Together, these mechanisms help ensure the ongoing reasonableness of FINRA's costs and the level of fees assessed to support those costs. The effectiveness of these mechanisms is demonstrated by FINRA's experience over the last decade, during which, FINRA was able to undertake expanding regulatory responsibilities while limiting cumulative cost growth to a rate that was lower than inflation and cost growth experienced by members.

⁹⁷ See FINRA Financial Reports and Policies, available at <https://www.finra.org/about/annual-reports>.

The Proposed Fees are Equitable and Not Unfairly Discriminatory

As discussed throughout this filing, this proposed rule change is designed to increase the fees FINRA relies on to fund its regulatory mission in a manner that preserves an equitable and not unfairly discriminatory fee allocation among FINRA members and users of FINRA services. Notably, through this proposed rule change, FINRA is seeking to preserve the carefully calibrated mix of core regulatory fees and select use-based fees to fund its regulatory mission that the Commission previously approved as equitably allocated among its large and diverse membership. In addition, based on feedback from members of FINRA's advisory committees and other industry consultations that emphasized the importance of advance notice and clarity of any fee increases for budget planning, implementation of the proposed rule change would take place over several years, with some fees going into effect in 2025, others implemented in 2026 or later, and some phased in over several years between 2025 and 2029.

The fees included in this proposed rule change were selected to address the impending funding deficit by raising fees in a way that maintains proportionality across members with minimal distributional impacts across firm sizes and business models. FINRA projects an aggregate dispersion level for the rate of increase realized across members to be 2.3% once the proposal is fully implemented.⁹⁸ In other words, in choosing among options according to the principles described above, FINRA also sought to have minimal impact on the distribution of fee rate changes across members by firm size and business model, as measured by the standard deviation of the rate of the fee increases. Given this limited distributional impact, FINRA believes the proposed rule

⁹⁸ See generally Exhibit 3, Charts 7 through 10.

change will preserve the same equitable and not unfairly discriminatory fee allocation that has long served as the foundation for FINRA's funding model and has been approved by the Commission.

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.

Economic Impact Assessment

FINRA has undertaken an economic impact assessment, as set forth below, to analyze the regulatory need for the proposed rule change, its potential economic impacts, including anticipated costs, benefits, and distributional and competitive effects, relative to the current baseline, and the alternatives FINRA considered in assessing how best to meet FINRA's regulatory objectives.

Regulatory Need

Based on an analysis of its funding sources, anticipated costs, and expanding responsibilities, FINRA has determined that it will require additional revenues to continue to effectively meet its regulatory obligations. FINRA anticipates that the absence of stable funding at the levels proposed here may have material negative impacts on its regulatory program, weakening investor protections. Specifically, FINRA may be unable to maintain its current capabilities at their current standards or respond to a significant market event requiring unanticipated funding. In the absence of a fee increase, eventually FINRA may not be able to hire and retain staff with the appropriate expertise to conduct its regulatory activities (including examinations, market surveillance

and investigations, enforcement, regulatory policy and rulemaking, qualification examinations and credentialing, and providing transparency for markets, members and registered persons), or make the necessary investments in the technology needed to support these activities.

Economic Baseline

The baseline for this proposed rule change includes FINRA's historical costs and revenues, the current schedule of fees assessed by FINRA, and the direct and indirect allocation of those fees across members, associated persons, third parties, and investors. The baseline also encompasses the scope of activities conducted by FINRA to meet its mission, and FINRA's current ability to address changing market activities and conditions through investment in staff, infrastructure, and technology.

As a not-for-profit organization, FINRA targets break-even cash flows that allow it to appropriately fund its regulatory mission, and maintains a reasonable financial reserve necessary to meet unanticipated circumstances. Between 2013 and 2023, FINRA's cost increase CAGR was 3.5%, or 41% over the entire period.⁹⁹ Over the same period, members' reported cost increase CAGR was 8.7%, or a total increase of 129%.¹⁰⁰

At the same time, capital markets have grown in size, complexity, and retail investor participation, in part, through an increase in the number of self-directed accounts and rapid technological changes. Partly in response to these changes, FINRA's regulatory responsibilities have, and continue to, grow as described above. There have

⁹⁹ Based on figures drawn from FINRA's public Annual Financial Reports, which include FINRA subsidiaries.

¹⁰⁰ Based on FOCUS reports.

been substantial increases in equity and options trading volume (respectively, over 70% and 160% increases since 2013) and in corporate and agency bond trading volume (over 230% increase since 2013). There has also been growth in the complexity of the securities markets (the number of registered national securities exchanges significantly increased since 2013, from 14 to 24¹⁰¹) and trading of new and evolving products, such as security-based swaps and securities with crypto asset components, has increased. These changes have led to a more complex trading environment. This, in turn, has required enhancements to oversight by FINRA staff. In addition, as discussed above, FINRA has made substantial investments in its surveillance and examinations programs in response to new and amended SEC rules.

Over the past several years, FINRA has observed changes in the number of registered persons and members. Between 2013 and 2023, the number of registered persons was essentially unchanged (627,468 and 628,392, respectively).¹⁰² In contrast, over the same period, the number of members decreased from 4,146 to 3,298, a decrease of approximately 20%.¹⁰³

FINRA believes that the number of registered persons remained fairly constant because persons from exiting members migrated to other members, requiring FINRA

¹⁰¹ See <https://www.sec.gov/fast-answers/divisionsmarketregmrexcangeshtml>. Additional registered national securities exchanges may contribute to more complex order lifecycles and trade reporting scenarios.

¹⁰² See Table 1.2.2 of the FINRA Industry Snapshot, available at <https://www.finra.org/media-center/reports-studies/2024-industry-snapshot>. As FINRA notes when it publishes industry snapshots, FINRA regularly updates historical data series due to data revisions by reporting firms.

¹⁰³ See Table 2.2.3 of the FINRA Industry Snapshot.

regulatory resources to shift accordingly. FINRA staff's quarterly reviews of departing firms find that on average about 75% of their associated persons remain registered after their firm exits the securities business, either by remaining with an affiliate firm or moving to a new firm. In the last quarter of 2023, the retention rate was closer to 90%. The difference in the decline in the number of members versus registered persons is also related to the fact that most exiting firms are small,¹⁰⁴ such that their departure has relatively less impact on the total number of registered persons.

Despite its increased responsibilities and changes in FINRA's own oversight by the SEC, FINRA achieved relatively low expense growth through a variety of cost-saving mechanisms.¹⁰⁵ Staffing generates the majority of FINRA's expenses and was relatively flat until recent years, commensurate with increases in FINRA's responsibilities. As discussed above, since 2013, FINRA's total compensation costs rose by 31% on a cumulative basis as compared with a 50% increase for the average U.S. financial services employee.¹⁰⁶ In aggregate, since 2013, FINRA's expenses have grown less rapidly than

¹⁰⁴ FINRA By-laws define the size of a member firm by the number of associated registered representative as the following: small – 150 or fewer registered representatives; mid-size – 151 to 500 registered representatives; and large – more than 500 registered representatives. A subgroup of the small firms are known as micro firms, firms with 10 or fewer registered representatives.

¹⁰⁵ As discussed above, cost savings have been accomplished in recent years through expense reduction initiatives, including conducting a comprehensive efficiency review of FINRA's core business lines; establishing a framework for improving measurement of FINRA's key objectives and results; voluntary retirement/incentive programs in 2020 and 2024; and strategic reductions in FINRA's corporate real estate footprint.

¹⁰⁶ See supra note 22.

those of members, with the ratio of member expenses to FINRA expenses gradually increasing over time. Chart 1, attached in Exhibit 3, presents these findings.¹⁰⁷

Over the period between 2013 and 2023, FINRA’s total regulatory and use-based fee CAGR was 3.9%. These revenues remained effectively flat from 2013 through 2019 due to a limited number of fee increases. A previously implemented fee increase was phased in between 2022 to 2024 and has resulted in increased levels of operating revenue. However, FINRA projects that increases in revenue will either remain flat or slightly decrease after 2024.

Chart 2 provides a view of actual revenues and expenses for 2013 to 2023 and anticipated revenue and expenses for 2024 to 2029 if no changes to the fee structure are made.¹⁰⁸ Chart 2 also includes historical and projected “excess reserves.” FINRA maintains a reserve fund as part of its funding framework, and excess reserves are reserves in excess of the minimum determined by the FINRA Board of Governors as appropriate, which is one year of expenditures.¹⁰⁹ FINRA has strategically relied on its reserves to help fund operating deficits in the past and will continue to strategically draw on its reserves where consistent with the Guiding Principles. Chart 2 illustrates, however,

¹⁰⁷ As with Chart 1, all of the charts discussed below are attached in Exhibit 3, available on FINRA’s website at <http://www.finra.org>.

¹⁰⁸ The revenues and expenses presented in Chart 2 in terms of Cash Flow Sources and Cash Flow Uses—both historical and projected—do not include subsidiaries other than FINRA Regulation and FINRA Dispute Resolution, which was merged into FINRA Regulation at the end of 2015. Cash Flow Sources includes Operating Revenues, Investment Returns and Fines. Cash Flow Uses includes Operating Expenses and Capital Initiatives.

¹⁰⁹ See supra note 12.

that without a fee increase, FINRA is projected to exhaust excess reserves and deplete its reserve balance below minimum target levels in the coming years.

Although FINRA's revenues would remain near current levels without any changes in the fee structure, FINRA reasonably anticipates that its future expenses will continue to grow at a pace of 5.9% on average per year based on the compounding impact of annual wage inflation, technology costs, and future capital initiatives.¹¹⁰ In this scenario, revenues would increasingly fall behind anticipated costs. While FINRA's reserves may continue to cover the shortfall in the near-term, the reserves will reach their minimum prudent level of one year of operating costs within three to four years based on current projections if no corrective action is taken.

As described above, FINRA funds its regulatory and other related activities through a combination of regulatory fees and use-based fees. GIA, TAF, PA and Branch Office Fees, taken together, represent approximately 69% of 2023 revenues, while use-

¹¹⁰ As discussed above, FINRA has made reasonably conservative assumptions using a variety of information points, including historical data and anticipated trends. See supra note 15. This estimate is based on the following assumptions for FINRA and excludes the independent budgeting of all of FINRA's active subsidiaries other than FINRA Regulation—specifically, FINRA CAT, LLC and the FINRA Investor Education Foundation: (1) wage inflation at an annual rate between 4% and 6%, consistent with the financial industry over the last five years; (2) technology expense growth: capital investments seeking long-term efficiency gains for both FINRA and the industry, rising cloud hosting costs driven by volume increases, maintaining technology labor competitiveness, and ongoing disaster recovery and cybersecurity requirements; and (3) rise in regulatory efforts and associated costs for FINRA's regulatory programs.

based fees represent approximately 31% of 2023 revenues. The specific fees that would be increased under this proposal represent approximately 89% of 2023 revenues.¹¹¹

All core regulatory and use-based fees mentioned above are assessed directly to members. FINRA understands that many members shift at least some of the fees to other parties. For instance, it is regular practice among clearing and trading firms to “pass-through” the TAF to the underlying firm executing the trade. Further, FINRA understands that the executing firms commonly pass the TAF directly on to their customers submitting orders. Typically, TAF fees are reflected on the confirmation statement received by customers.¹¹²

Similarly, FINRA understands that many firms regularly pass-through to registered persons assessments such as the PA, registration fees, and qualification examination fees. FINRA understands that there may be differences in this practice across firms depending on each firm’s business model. Competitive markets for the provision of brokerage and related financial intermediation services, along with difficulty in allocating certain fees to specific transactions, can limit the extent to which these fees can be passed-through.

¹¹¹ Following the implementation of the proposed rule change, GIA, TAF, PA and Branch Office Fees, together, would represent approximately 72% of revenues, while use-based fees would represent approximately 28%.

¹¹² FINRA conducted a study of a sample of members, which included approximately 25 retail investor focused broker-dealers and approximately 15 institutional investor focused broker-dealers, to better understand practices of TAF pass through. The research found that the majority of the retail focused firms did pass through the TAF to their customers. FINRA does not know the full extent of this practice across all members.

Core regulatory fees are calibrated so that larger, more active and more geographically dispersed members are assessed higher fees, reflecting regulatory resource allocation. Likewise, the use-based fees that are part of core regulatory fees are designed to capture some of the costs associated with core regulatory activities in addition to the direct and indirect costs of the associated services. For example, FINRA believes it is appropriate that registration and qualification examination fees help defray the costs of regulating registered persons because members employing more persons require more regulatory effort on FINRA's part. This approach is consistent with a structure where the fees paid increase with the size of the firm's revenues (GIA) and the amount of trading activity it conducts (TAF). In addition, core regulatory fees tend to be correlated with member size and structure. As such, core regulatory fees are designed cohesively and comprehensively such that they should be evaluated in aggregate and not on a fee-by-fee or service-by-service basis.

The fee structure is also designed, purposefully, to account for diversity in firm size. Compliance and regulatory oversight naturally represent a larger relative cost to small firms. Because FINRA wants to prevent regulatory costs from either creating a barrier to entry for small firms, or over-burdening existing small firms, the current fee structure includes a level of cross-subsidization by larger firms.

FINRA believes that this practice supports two objectives. First, it is important that retail investors have access to diverse types of financial services intermediaries, including members of varying size. For example, some investors may prefer to engage registered persons associated with smaller firms. Second, the extent to which firms benefit from well-regulated markets is relative to firm size. Under well-regulated

markets, investors are more willing to trust financial intermediaries because they are confident that they are treated fairly in their access to securities markets and products. Greater participation in the financial markets by investors allows firms to grow larger and become more diversified, leading to cost savings and reduced risk through economies of scale and scope. The concentration in both retail and institutional investor activity at larger firms suggests that larger firms reap substantial benefits from strong regulation and should therefore provide a substantial portion of the fees that support this regulation. At the same time, the impact of widespread misconduct at a larger firm may impair investor confidence more broadly than similar misconduct at a smaller firm. This lends further support to the practice of assessing higher fees on larger firms.

Chart 3 presents the distribution in 2024 of FINRA's regulatory and use-based fee revenue and the proportion of FINRA's examination time, along with the proportion of firms and registered persons, by firm-size category as defined in the FINRA By-Laws.¹¹³ Small firms, including micro firms, account for 89% of the firms in the industry, 10% of total registered persons, 57% of FINRA's total firm examination time, and 12% of FINRA's revenues. Large firms, conversely, represent less than 5% of firms, over 80% of registered persons, 32% of FINRA's firm examination effort, and approximately 67% of FINRA's revenues. The remaining portions of firm examination time and revenues are attributable to mid-size firms.

¹¹³ The revenue in Charts 3-10 excludes Corporate Financing fees, which are generally passed through to issuers, and a portion of DRS fees that are paid directly by customers. See supra note 31. The revenue in these charts also excludes MAP fees, which are incurred irregularly. See also supra note 8 and accompanying text.

Chart 4 presents the same measures as in Chart 3 by the business model category. The categories of capital markets and retail firms account for 80% of the firms in the industry, 72% of total registered persons, 55% of FINRA's total examination time, and 33% of FINRA's regulatory and use-based fee revenues.¹¹⁴ The category of diversified firms, including most of the largest firms, accounts for approximately 5% of firms in the industry, almost 25% of total registered persons, over 27% of FINRA's total examination time, and 44% of FINRA's revenues. The remaining portions are attributable to the category of trading firms and the category of clearing firms.

Economic Impact

FINRA's fee proposal is intended to ensure that FINRA can continue to meet its mission of promoting investor protection and market integrity in a manner that facilitates vibrant capital markets. This proposed rule change preserves FINRA's ability to be a robust and effective SRO, protecting investors from manipulation, exploitation, and other harms. Adequate funding allows FINRA to develop regulatory approaches that are effective and efficient, and to revise its rules through, among other ways, its robust retrospective review process. Through appropriate funding, FINRA will be better situated to adapt to changing markets, market behaviors, and expanding responsibilities. A stable and reliable funding model also permits members to better anticipate and plan for FINRA's fees. These benefits accrue to current and prospective investors, firms, issuers, and others participating in financial intermediation.

¹¹⁴ See supra note 113. Here, business model represents the primary type of services provided by the member firm.

FINRA notes that academic literature has provided evidence of the linkage between strong regulation in securities markets and improved outcomes, including more trading, lower transaction costs, and greater investor participation in the markets.¹¹⁵ Bruggemann, et al. [2018] study the impact of differences in state regulation on OTC stocks. They find that firms issuing in the OTC market subject to stricter regulation are more liquid and are subject to lower “crash risk.” Cazier, et al. [2023] examine the effect of the SEC’s initiative to prevent fraud in OTC markets by suspending inactive shell companies that could be targeted by market manipulators. The authors find that these suspensions are associated with fraud deterrence among other OTC firms operating within the same regulatory jurisdiction as the suspended firm. Silvers [2016] studies the impact of SEC enforcement actions against foreign cross-listed issuers. He shows evidence that other cross-listed issuers (not cited by the SEC) experienced positive returns, suggesting that increased regulatory attention increases valuation. Silvers [2020] and Lang et al. [2020] further show that cross-border cooperation between securities

¹¹⁵ See, e.g., U. Bruggemann, A. Kaul, C. Leuz & I. Werner, *The Twilight Zone: OTC Regulatory Regimes and Market Quality*, 31(3) *The Review of Financial Studies*, 898-942 (2018); R. Cazier, J. Huang & F. Zhou, *Regulatory Spillover Effects in OTC Markets*, *Review of Accounting Studies*, 1-33 (2023); Roger Silvers, *The Valuation Impact of SEC Enforcement Actions on Nontarget Foreign Firms*, 54 (1) *Journal of Accounting Research*, 187-234 (2016); Roger Silvers, *Cross-Border Cooperation between Securities Regulators*, 69 (2-3) *Journal of Accounting and Economics*, 101301 (2020); M. Lang, M. Maffett, J. D. Omartian & R. Silvers, *Regulatory Cooperation and Foreign Portfolio Investment*, 138 (1) *Journal of Financial Economics* 138-158 (2020); H. Christensen, M. Maffett & L. Vollon, *Securities Regulation, Household Equity Ownership, and Trust in the Stock Market*, 24 (3) *Review of Accounting Studies*, 824-859 (2019); and D. Aghanya, V. Agarwal & S. Poshakwale. *Market in Financial Instruments Directive (MiFID), Stock Price Informativeness and Liquidity*, 113 *Journal of Banking & Finance*, 105730 (2020).

regulators reduces the cost of liquidity provision and increases cross-border investment in the capital markets of participating countries. Finally, Christensen et al. [2019] and Aghanya et al. [2020] study the impact of the introduction of the European Union's Market Abuse Directive and MiFID. These studies conclude that these initiatives, designed to enhance investor protections, have led to higher household ownership of equities, higher liquidity, and higher stock price informativeness.

The proposed rule change would implement fee changes that would maintain the current distribution of total fees allocated across members by size and business model. Based on FINRA's projections of fee increases from 2024 to 2029, approximately 67% of the fee increases would be borne by large firms, 22% by mid-size firms, 9% by small firms, 1% by micro firms and the remaining 1% by non-members.¹¹⁶

Chart 5 describes the proportion of regulatory and use-based fees anticipated to be collected under the proposed rule change across firm size categories during the period from 2024 through 2029.¹¹⁷ In each year, 66%-68% of the fee is expected to be borne by large firms, 16%-17% by mid-size firms, 11%-12% by small firms, approximately 1% by micro firms, and 3-4% by non-members. Therefore, the overall allocation of fees by firm size is expected to remain relatively unchanged with the implementation of the increase in fees.

Chart 6 describes the proportion of regulatory and use-based fees anticipated to be collected across firm business models during the period from 2024 through 2029.¹¹⁸ In

¹¹⁶ The firm size categories are defined above, see supra note 104.

¹¹⁷ See supra note 113.

¹¹⁸ See supra note 113.

each year, approximately 70% of the fees are expected to be borne by diversified and retail firms, with the remaining fees distributed relatively evenly across trading, capital markets, and clearing firms. As with FINRA's analysis of the proposed fee increases by firm size, the chart demonstrates that the overall allocation by firm business models is expected to remain unchanged with the implementation of the increase in fees.

Taken together, these charts indicate that the proposed fee increases are designed to allocate the growth in fees in an equitable manner, all else held equal, by maintaining a similar allocation of fees across firm sizes and business models, both overall and year-by-year.

As discussed, while potentially material, FINRA fees represent a small dollar amount relative to industry activity. Since 2013, as a percentage of member revenue, FINRA's total fees have ranged between 0.2% and 0.4%, with an average of 0.30%. Under the assumption that members' revenues resume growth at a level commensurate with recent history,¹¹⁹ FINRA's fees would be 0.31% percent by 2029.¹²⁰ This share of member revenue is close to the historical average of 0.30%.

The amount of the fee increase borne by members depends on the extent to which they shift the burden of these fees to their associated persons and customers. As discussed above, FINRA understands that of the fees addressed by this proposal, the fee most likely to be passed through to customers is TAF, which is directly tied to customer trading activities. Despite the pass-through, FINRA believes the proposed TAF increase

¹¹⁹ This 2029 industry revenue projection is based on historical FOCUS revenue growth of 8.5% (2013-2023).

¹²⁰ See supra note 33 and accompanying text.

would not significantly affect customer trading behavior as TAF represents a small proportion of the average value of customer transactions. In 2023, TAF per share traded was 0.031 basis points (0.00031%) of the average price of the traded shares. When the new rates are fully implemented in 2029, TAF per share traded would be approximately 0.058 basis points of the average price of traded shares.¹²¹

To better understand the impact of the proposed fee increases across members within each firm size category, FINRA analyzed the expected distribution of fee increases for all existing firms under the proposed fee structure, based on the expected rate of dispersion. Dispersion is a way to compare the anticipated growth rate in fees across a range of firms. Lower dispersion is associated with a higher degree of consistency in terms of the impact of the proposed fee increases and can be interpreted as more firms in a given group experiencing similar rates of growth. By seeking to limit dispersion, the proposal is effectively limiting the potential for inequitable treatment across members. This approach also reduces the potential for the proposed fee increase to create unintended impacts on the provision of financial services by members and the business models adopted by them.

FINRA's analysis examines the level of dispersion based on the CAGR of the expected fee increase. CAGR is measured in this analysis relative to FINRA's projection of total fees in 2024.¹²² CAGR provides a standard metric to compare the relative impact

¹²¹ The average share price estimate is based on the number of shares and dollar trading volume from CBOE. See https://www.cboe.com/data_and_access_solutions for details.

¹²² We exclude firms that are not assessed GIA in the base year from CAGR distribution analysis. Since GIA in the base year drives the denominator of the CAGR formula, firms that are not assessed GIA would have inflated CAGRs by

of the fee increases within and across subgroups. Because the number of registered persons, trading and other business activities, and resulting aggregate fee dollar amounts vary significantly across firms and firm sizes, benchmarking to CAGR permits FINRA to closely compare the magnitude of the distribution across firms.

As discussed, implementation of the proposed rule change would take place over several years, with a minority of fees going into effect in 2025, most fees implemented in 2026 or later, and several fees phased in over several years between 2025 and 2029. Due to the variability in when fees are implemented, and whether they are implemented at one time or phased in, FINRA believes that considering dispersion by firm size category over the five-year period is more useful than on an annual basis.

Charts 7 through 10 provide a view on the distribution of fee increases within each firm size category. These charts also report the median increase in FINRA fees that are the subject of this proposal over the full period from 2025 through 2029 by firm size. Within the charts, each of the four central bars represents one standard deviation from the median, so that the two most central dark blue bars together would theoretically represent approximately 67% of all firms evaluated (plus or minus one standard deviation) and approximately 95% of firms evaluated should be represented under the four most central dark blue and mid-blue bars (plus or minus two standard deviations) presented in the charts.

While it is not feasible to eliminate the possibility that some members will experience a rate of fee growth that is outside of the two standard deviation range,

construction. Therefore, we exclude these firms to ensure that the tails of our distribution reflect a more accurate measure of fee growth.

FINRA sought to limit the number of firms falling into this category when structuring this proposal. These charts demonstrate that the proposal significantly limits the number of firms that fall beyond two standard deviations from the median increase. In particular, the proposal limits those firms that would be expected to experience a materially higher fee increase than the median (as defined by two standard deviations). When considering all the fees in this proposal, FINRA estimates that fewer than 2.5% of members would experience a fee increase greater than two standard deviations from the median. When only core regulatory fees are considered (i.e., excluding select use-based fees that only impact the users of those programs or services) fewer than 1% of firms would experience a fee increase greater than two standard deviations from the median.¹²³

Based on this analysis, FINRA concludes the following:

- For micro firms, the median firm would anticipate an annual increase of 3.4%, translating to a dollar increase of \$625. Approximately three-quarters of these firms would experience an annual increase between 1.4% and 5.4% between 2025 and 2029. Holding revenues constant at 2024 levels, total regulatory and use-based fees would increase from 0.26% to 0.31% of FOCUS reported revenues on average. This group includes 1,538 firms and represents 46.5% of all FINRA members.
- For other small firms, the median firm would anticipate an annual increase of 3.9%, translating to a dollar increase of approximately \$4,135.

¹²³ As discussed above, the select use-based fees include Corporate Financing Private Placement Review; Corporate Financing Public Offering Review; Advertising Regulation Review; DRS Arbitration; and Regulation T and Exchange Act Rule 15c3-3(n) Requests for Extension of Time. See supra note 24.

Approximately 80% of these firms would experience an annual increase in fees between 1.3% and 6.4% between 2025 and 2029. Holding revenues constant at 2024 levels, total regulatory and use-based fees would increase from 0.23% to 0.29% of FOCUS reported revenues on average. This group includes 1,414 firms and represents 42.8% of all FINRA members.

- For mid-size firms, the median firm would anticipate a 5% annual increase, translating to a dollar increase of approximately \$82,500. Approximately three-quarters of these firms would experience an annual increase between 2.9% and 7.1% between 2025 and 2029. Holding firm revenues constant at 2024 levels, total regulatory and use-based fees would increase from 0.26% to 0.36% of FOCUS reported revenues on average. This group includes 212 firms and represents 6.4% of all FINRA members.
- For large firms, the median firm would anticipate a 5.4% annual increase, translating to a dollar increase of approximately \$415,000. Approximately three-quarters of these firms would experience an annual increase between 4.0% and 6.9% between 2025 and 2029. Holding revenues constant at 2024 levels, total regulatory and use-based fees would increase from 0.18% to 0.23% of FOCUS reported revenues on average. This group includes 141 firms and represents 4.3% of all FINRA members.

FINRA notes that 1.7% of micro firms would experience a fee increase greater than two standard deviations above the median. Because the median increase is relatively low (\$625), small dollar increases in fees can result in a large change in CAGR and its distribution.

FINRA also notes that the 2.5% of small firms that would experience a fee increase greater than two standard deviations are mostly firms that would incur new or increased use-based fees for FINRA services that are not core regulatory activities. If only core regulatory fees are considered, only 1.1% of small firms would experience a fee increase greater than two standard deviations from the median increase.

The 2.4% of mid-size firms that would experience a fee increase greater than two standard deviations above the median are mostly firms that incur a significant increase in TAF. If TAF is excluded, only 1.4% of mid-size firms would experience a fee increase greater than two standard deviations from the median increase. As mentioned above, FINRA understands that the TAF is typically passed-through to customers.

As part of its analysis, FINRA also considered the broad potential impacts on competition under this proposal. The analysis considers the impact across all FINRA members, across members based on size or business model, and between members and other financial services providers.

FINRA does not anticipate that the proposal will materially impact competition among members. The proposal is designed to maintain the current funding model and the relative allocation of fees across its core regulatory fees and select use-based fees. In other words, each of the affected fees would increase commensurate with fees charged under the current framework; no individual fee would be raised such that it may create inordinate hardships for some firms and benefit others. Implementation of the proposed rule change would not require significant system or process changes by firms.

Similarly, FINRA does not anticipate that the proposed rule change will materially impact competition across members of different sizes or business models. The

analysis of distributions within firm size indicates that firms may anticipate some differences in fee increases based on the services they provide and the way they provide those services. Nevertheless, as designed, the proposal maintains the relative allocation of fees across firm size and business model, meaning the proposed rule change is designed to preserve a consistent rate of growth in fee increases across firm size and business model. As noted above, this approach is designed to limit the likelihood that any specific fee change may create hardships for some firms and benefit others. Further, this proposed rule change maintains the current approach for cross-subsidization of the cost of regulatory oversight of members of different sizes.

FINRA can identify two potential impacts of this proposal on the competition between its members and other providers of financial services. Although these increases are calibrated to limit the impact on individual members, at the margin, some members may find these increases material to their business. Further, where members may have the ability to provide similar services, or a subset of services, under an alternative business model that does not require FINRA membership, increased FINRA costs may increase the likelihood that these firms withdraw from FINRA in favor of the alternative business model. Based on the information available to it today, FINRA does not have an accurate measure of the number of members that may choose to withdraw registration as a FINRA member as a result of this proposed rule change.¹²⁴

¹²⁴ FINRA notes that because of the time lapse between proposal, adoption and implementation of fee increases, combined with changing business environments over time, it is difficult to reliably estimate the number of firms that might have exited historically because of previous fee increases.

The proposed rule change may have an additional impact on competition through funding FINRA's regulatory activities. As discussed above, strong and effective surveillance and regulation of securities markets has been shown to increase investor confidence in the fairness of the market. This has been measured by an increase in retail participation in the securities markets, greater liquidity, and higher securities valuations. Given the presence of substitutes to broker-dealers for retail clients—e.g., investment advisory services, issuers selling directly to the public, or certain market-linked insurance products—it may be reasonable to expect that effective regulation by FINRA would continue to be a positive externality to those competitors. That is, increased confidence by retail investors due to FINRA's activities may increase business opportunities and lower transaction costs in the securities industry as a whole. This would benefit non-FINRA member competitors, especially in instances where investors do not recognize these competitors are not regulated by FINRA.

Alternatives Considered

In developing this proposal, FINRA considered several options. First, FINRA considered making all the fee changes effective in 2025. FINRA did not pursue this alternative because it believed that, where possible, members should be provided an extended time period to plan for the proposed fee increase. In light of uncertainty and volatility in the markets, FINRA believes that implementing the proposed fee increase at one time would impose a greater burden on members than phasing in the implementation of the fee increases, as proposed.

FINRA also considered making all of the fee changes effective in 2026, but decided against that approach for many of the same reasons noted above. However,

FINRA believes that deferring implementation of all fees in this proposed rule change is unnecessary and would hinder FINRA's ability to support its regulatory mission. As discussed, the uncertainty in the markets, which creates challenges for members and investors, also impacts FINRA. For example, market volatility increases the risk that FINRA's reserve portfolio will fall below the appropriate minimum.¹²⁵ This limits FINRA's flexibility in relying on its reserves to cover funding gaps and indicates the need for stable funding as soon as practicable.

Further, FINRA notes that consistent investor protection is of vital importance, particularly in times of uncertainty, where FINRA has seen an increase in customer complaints and alerts from its surveillance programs.¹²⁶ Financial limitations that constrain FINRA's ability to carry out its mission would have material negative implications for investors and the financial markets. Taking these concerns into account, FINRA believes that the most prudent course of action is to start increasing some fees in 2025, but to stagger the implementation over multiple years.

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.

¹²⁵ See supra note 12.

¹²⁶ In the first quarter of 2020, FINRA saw an increase in alerts generated through its market surveillance of over 250% compared to the same quarter in 2019.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹²⁷ and paragraph (f)(2) of Rule 19b-4 thereunder.¹²⁸ 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. Please include File Number SR-FINRA-2024-019 on the subject line.

¹²⁷ 15 U.S.C. 78s(b)(3)(A).

¹²⁸ 17 CFR 240.19b-4(f)(2).

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-2024-019. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your 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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-FINRA-2024-019 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

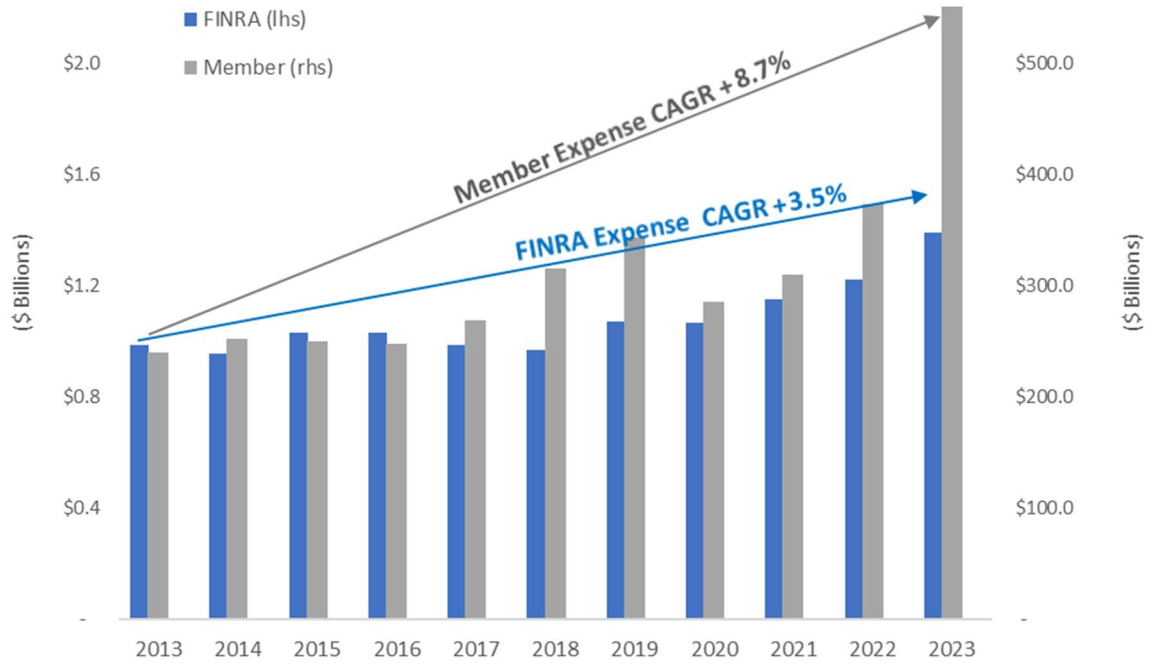
For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²⁹

Jill M. Peterson
Assistant Secretary

¹²⁹ 17 CFR 200.30-3(a)(12).

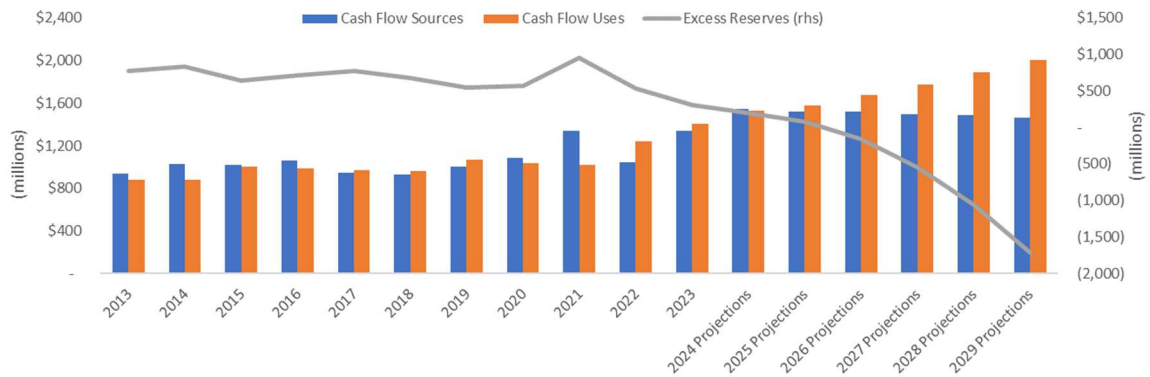
Exhibit 3 – Supporting Charts

Chart 1: FINRA & Member Expenses



Notes: Member expenses reflect FOCUS Expenses, which are supplied by individual firms and aggregated for analysis purposes. FINRA expenses represent the total expenses shown in FINRA’s public Annual Financial Reports excluding FINRA Investor Education Foundation and FINRA CAT, LLC.

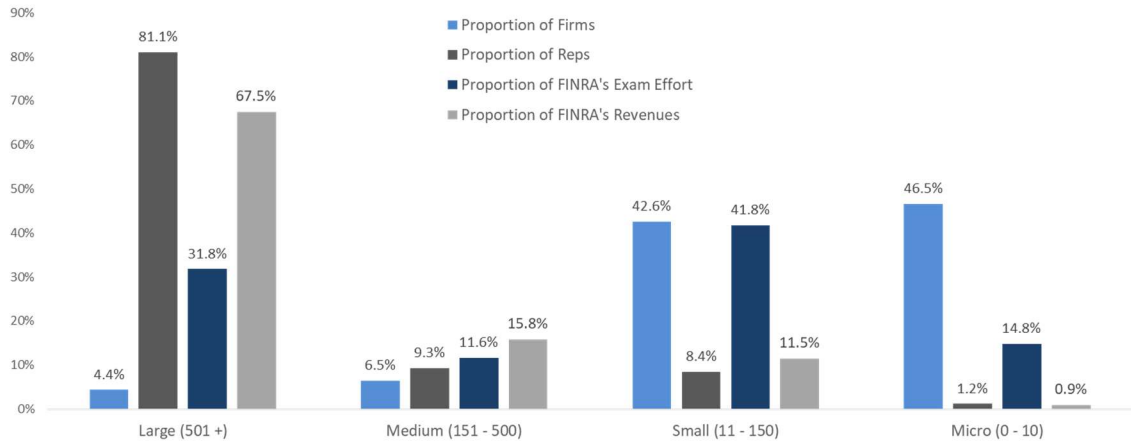
Chart 2: Cash Flow Sources, Cash Flow Uses, Excess Reserve Balance (excludes fee increase)



Notes: Cash Flow Sources Include all operating revenues, fines, and investment returns. See supra note 10 for additional detail. Cash Flow Uses Include operating expenses, initiatives, and other uses. Excess Reserves represent the Reserve Balance less one year of FINRA’s expenditures, or Cash Flow Uses, which serves as the target level of the Reserves based on FINRA’s Financial Guiding Principles approved by FINRA’s Board of Governors.

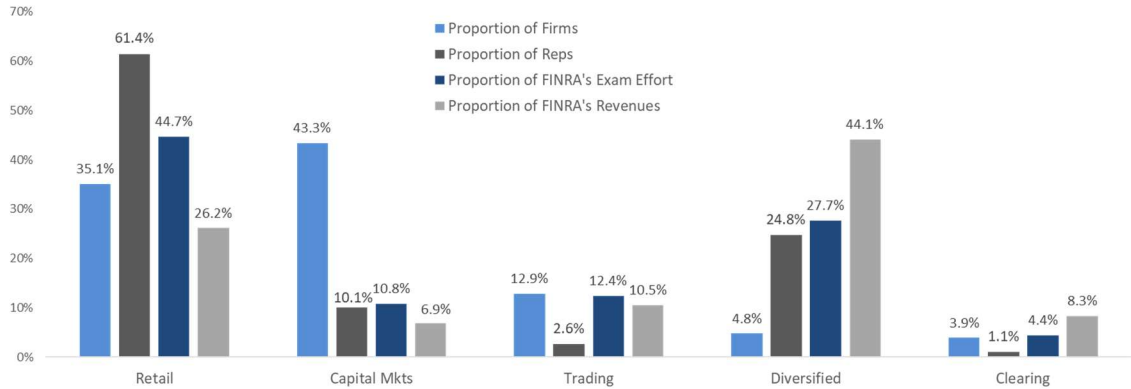
All data excludes FINRA Investor Education Foundation and FINRA CAT, LLC.

Chart 3: Member Firm Composition by Firm Size Category



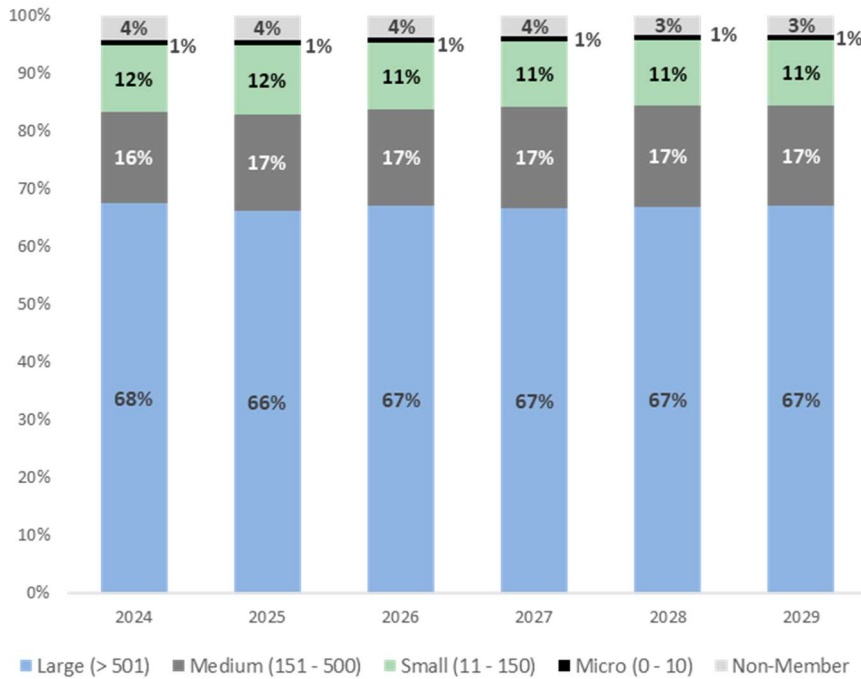
Notes: Revenues based on regulatory and use-based fees. See supra note 110.

Chart 4: Member Firm Composition by Business Model Category



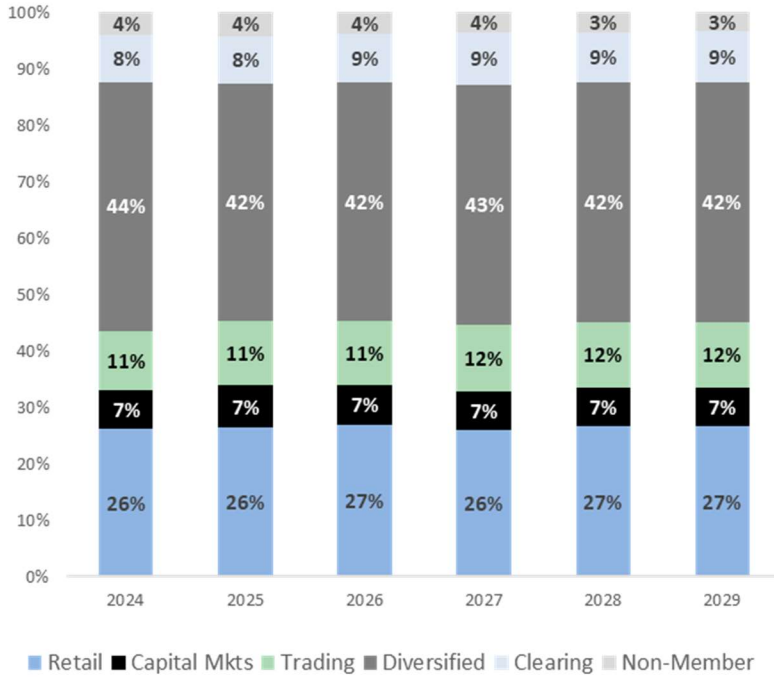
Notes: Revenues based on regulatory and use-based fees. See supra note 110.

Chart 5: Percentages of Regulatory and Use-Based Fees by Firm Size Category



Notes: Revenues based on regulatory and use-based fees. See supra note 110.

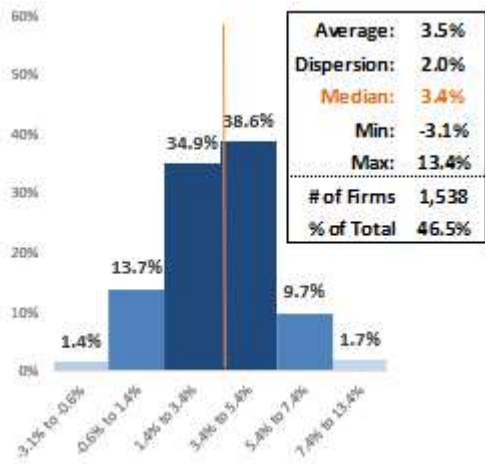
Chart 6: Percentages of Regulatory and Use-Based Fees by Business Model Category



Notes: Revenues based on regulatory and use-based fees. See supra note 110.

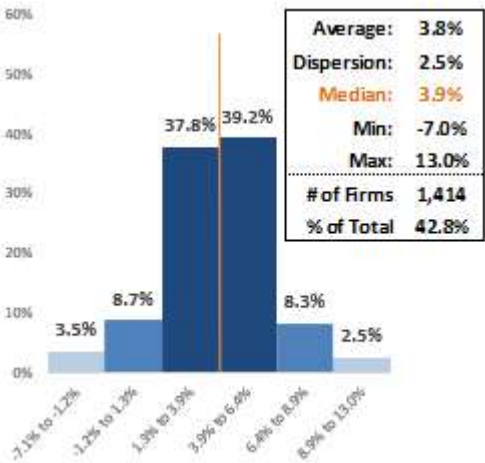
Charts 7-10: Distribution of CAGRs for Each Firm Size Category

Chart 7: 2025-2029 Micro Firms CAGR Dispersion



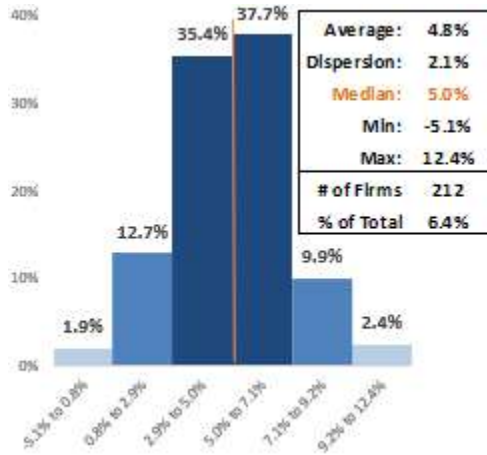
Notes: Revenues based on regulatory and use-based fees. See supra note 110.

Chart 8: 2025-2029 Small Firms CAGR Dispersion



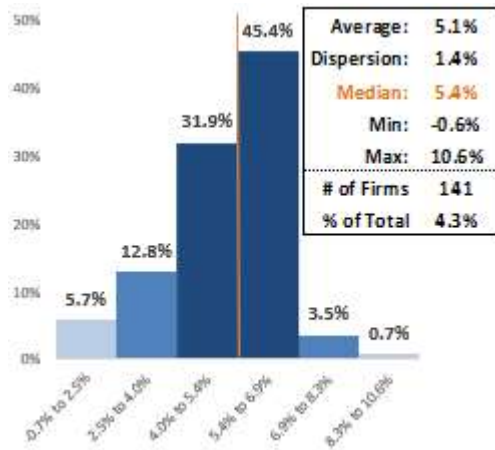
Notes: Revenues based on regulatory and use-based fees. See supra note 110.

Chart 9: 2025-2029 Mid-Size Firms CAGR Dispersion



Notes: Revenues based on regulatory and use-based fees. See supra note 110.

Chart 10: 2025-2029 Large Firms CAGR Dispersion



Notes: Revenues based on regulatory and use-based fees. See supra note 110.

EXHIBIT 5A

Below is the text of the proposed rule change to take effect on January 1, 2025. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

BY-LAWS OF THE CORPORATION

* * * * *

SCHEDULE A TO THE BY-LAWS OF THE CORPORATION

Assessments and fees pursuant to the provisions of Article VI of the By-Laws of the Corporation shall be determined on the following basis.

* * * * *

Section 8 — Service Charge for Processing Extension of Time Requests

[(a) There shall be a service charge imposed on all members who file with the association a request for an extension of time pursuant to the provisions of Section 220.4(c)(3) of Regulation T and/or paragraph (n) of Rule 15c3-3 under the Act.]

[(b)] The service charge for processing each initial extension of time request and for all subsequent extension of time requests (1) involving the same transaction under Regulation T [and/]or (2) involving an extension of time previously granted pursuant to SEA[C] Rule 15c3-3(n) shall be \$8[4].00 per request.

* * * * *

Section 13 — Review Charge for Communications Filed or Submitted

There shall be a review charge for each and every communication, whether in printed, video or other form, filed with or submitted to FINRA, except for items that are filed or submitted in response to a written request from FINRA's Advertising Regulation Department ("the Department") issued pursuant to the spot check procedures set forth in

FINRA rules, as follows: (1) for printed or website material reviewed, \$300[125].00, plus \$10.00 for each printed page or webpage reviewed in excess of 10 pages; and (2) for video or audio media, \$300[125].00, plus \$10.00 per minute for each minute of tape reviewed in excess of 10 minutes.

Where a member requests expedited review of material submitted to the Department there shall be a review charge of \$600.00 per item plus \$50.00 for each printed page or webpage reviewed in excess of 10 pages. Expedited review shall be completed within three business days, not including the date the item is received by the Department, unless a shorter or longer period is agreed to by the Department. The Department may, in its sole discretion, refuse requests for expedited review.

* * * * *

Section 15 — Funding Portal Member Fees

(a) through (e) No Change.

(f)(1) A funding portal member shall pay a fee of \$5,000[1,500] at the time that it files an application to initiate eligibility proceedings pursuant to Funding Portal Rule 900(b). Any funding portal member whose application results in a full hearing for eligibility in FINRA pursuant to Funding Portal Rule 900(b) shall pay to FINRA an additional fee of \$2,500.

(f)(2) No Change.

(g) A funding portal member shall pay \$20[15] for processing and posting to the CRD system each set of fingerprints submitted electronically by the member, or \$30 if submitted in non-electronic format, to FINRA, plus any other charge that may be imposed by the United States Department of Justice for processing each set of fingerprints.

(h) No Change.

FINRA Rules

* * * * *

12000. CODE OF ARBITRATION PROCEDURE FOR CUSTOMER DISPUTES

* * * * *

12900. Fees Due When a Claim Is Filed

(a) Fees for Claims Filed by Customers, Associated Persons and Other Non-Members

(1) Customers, associated persons, and other non-members who file a claim, counterclaim, cross claim or third party claim must pay a filing fee in the amount indicated in the schedule below.

Filing Fees for Claims Filed by Customers, Associated Persons, and Other Non-Members

Amount of Claim (exclusive of interest and expenses)	Filing Fee
\$.01 to \$1,000	\$50
\$1,000.01 to \$2,500	\$75
\$2,500.01 to \$5,000	\$175
\$5,000.01 to \$10,000	\$325
\$10,000.01 to \$25,000	\$425
\$25,000.01 to \$50,000	\$600
\$50,000.01 to \$100,000	\$975
\$100,000.01 to \$500,000	\$ <u>1,790</u> [1,425]
\$500,000.01 to \$1,000,000	\$ <u>2,175</u> [1,740]
\$1,000,000.01 to \$5,000,000	\$ <u>2,540</u> [2,025]

Over \$5,000,000	\$ <u>2,875</u> [2,300]
Non-Monetary/Not Specified	\$ <u>2,000</u> [1,600]

(2) If the claim does not request or specify money damages, the Director may determine that the filing fee should be more or less than the amount specified in the schedule above, but in any event, the amount of the filing fee may not be less than \$50 or more than \$2,875[2,300].

(3) through (4) No Change.

(b) Fees for Claims Filed by Members

(1) Members filing a claim, counterclaim, cross claim, or third party claim must pay a filing fee in the amount indicated in the schedule below. Failure to pay the required amount will result in a deficiency under Rule 12307.

Fees for Claims Filed by Members

Amount of Claim (exclusive of interest and expenses)	Filing Fee
\$0.01 to \$1,000	\$225
\$1,000.01 to \$2,500	\$350
\$2,500.01 to \$5,000	\$525
\$5,000.01 to \$10,000	\$750
\$10,000.01 to \$25,000	\$1,050
\$25,000.01 to \$50,000	\$1,450
\$50,000.01 to \$100,000	\$1,750

\$100,000.01 to \$500,000	\$ <u>2,660</u> [2,125]
\$500,000.01 to \$1,000,000	\$ <u>3,320</u> [2,650]
\$1,000,000.01 to \$5,000,000	\$ <u>4,440</u> [3,550]
Over \$5,000,000	\$ <u>5,250</u> [4,200]
Non-Monetary/Not Specified	\$ <u>2,250</u> [1,800]

(2) If the claim does not request or specify money damages, the Director may determine that the filing fee should be more or less than the amount specified in the schedule above, but in any event, the filing fee may not be less than \$225 or more than \$5,250[4,200].

(c) Partial Refund of Filing Fee

(1) If a claim is settled or withdrawn more than 10 days before the date that the hearing on the merits under Rule 12600 is scheduled to begin, a party paying a filing fee will receive a partial refund of the filing fee in the amount indicated in the schedule below, less any other fees or costs assessed against the party under the Code, including any hearing session fees assessed under Rule 12902. Except as set forth in Rule 12900(c)(3), no refund will be paid if FINRA receives notice that a claim is settled or withdrawn within 10 days of the date that the hearing on the merits under Rule 12600 is scheduled to begin.

**Partial Refund for Settlement or Withdrawal
More Than 10 Days Before Hearing on the Merits**

Amount of Claim (exclusive of interest and expenses)	Refund
\$0.01 to \$1,000	\$25
\$1,000.01 to \$2,500	\$50
\$2,500.01 to \$5,000	\$125
\$5,000.01 to \$10,000	\$250
\$10,000.01 to \$25,000	\$300
\$25,000.01 to \$50,000	\$450
\$50,000.01 to \$100,000	\$750
\$100,000.01 to \$500,000	<u>\$1,410</u> [1,125]
\$500,000.01 to \$1,000,000	<u>\$1,625</u> [1,300]
\$1,000,000.01 to \$5,000,000	<u>\$1,750</u> [1,400]
Over \$5,000,000	<u>\$1,875</u> [1,500]
Non-Monetary/Not specified	<u>\$1,500</u> [1,200]

(2) through (3) No Change.

(d) No Change.

12901. Member Surcharge

(a) Member Surcharge

(1) A surcharge in the amount indicated in the schedule below will be assessed against each member that:

(A) through (C) No Change.

Member Surcharge

Amount of Claim (exclusive of interest and expenses)	Surcharge
\$.01 to \$5,000	\$ <u>165</u> [150]
\$5,000.01–\$10,000	\$ <u>360</u> [325]
\$10,000.01–\$25,000	\$ <u>495</u> [450]
\$25,000.01–\$50,000	\$ <u>975</u> [750]
\$50,000.01–\$100,000	\$ <u>1,430</u> [1,100]
\$100,000.01–\$250,000	\$ <u>2,210</u> [1,700]
\$250,000.01–\$500,000	\$ <u>2,640</u> [2,025]
\$500,000.01–\$1,000,000	\$ <u>3,420</u> [2,625]
\$1,000,000.01–\$5,000,000	\$ <u>4,800</u> [3,200]
\$5,000,000.01–\$10,000,000	\$ <u>5,775</u> [3,850]
Over \$10,000,000	\$ <u>6,490</u> [4,325]
Non-Monetary/Not Specified	\$ <u>2,600</u> [2,000]

(2) If the claim does not request or specify money damages, the Director may determine that the member surcharge should be more or less than the amount specified in the schedule above, but in any event the amount of the member surcharge may not be less than \$165[150] or more than \$6,490[4,325].

(3) through (6) No Change.

(b) No Change.

12902. Hearing Session Fees, and Other Costs and Expenses

(a) Hearing Session Fees

(1) Hearing session fees will be charged for each hearing session. The total amount chargeable to the parties for each hearing session is based on the amount in dispute, as specified in the schedule below. In the award, the panel will determine the amount of each hearing session fee that each party must pay.

Hearing Session Fees

Amount of Claim (exclusive of interest and expenses)	Hearing Session W/ One Arbitrator	Hearing Session W/ Three Arbitrators
Up to \$2,500	\$50	N/A
\$2,500.01 to \$5,000	\$125	N/A
\$5,000.01 to \$10,000	\$250	N/A
\$10,000.01 to \$25,000	\$450	N/A
\$25,000.01 to \$50,000	\$450	\$600
\$50,000.01 to \$100,000	\$450	\$750

\$100,000.01 to \$500,000	\$ <u>675</u> [450]	\$ <u>1,690</u> [1,125]
\$500,000.01 to \$1,000,000	\$ <u>675</u> [450]	\$ <u>1,990</u> [1,325]
\$1,000,000.01 to \$5,000,000	\$ <u>675</u> [450]	\$ <u>2,160</u> [1,435]
Over \$5,000,000	\$ <u>675</u> [450]	\$ <u>2,370</u> [1,575]
Non-Monetary / Not Specified	\$ <u>675</u> [450]	\$ <u>1,725</u> [1,150]

(2) If the claim does not request or specify money damages, the Director may determine that the hearing session fee should be more or less than the amount specified in the schedule above, but in any event the hearing session fee shall not be less than \$50 or more than \$2,370[1,575] for each hearing session.

(3) through (5) No Change.

(b) through (e) No Change.

12903. Process Fees Paid by Members

(a) Each member that is a party to an arbitration in which more than \$25,000, exclusive of interest and expenses, is in dispute must pay a non-refundable process fee, due at the time the parties are sent arbitrator lists in accordance with Rule 12402(c) or Rule 12403(b), as set forth in the schedule below.

Process Fee Schedule

Amount of Claim (exclusive of interest and expenses)	Process Fee
\$0.01–\$25,000	\$ 0

\$25,000.01–\$50,000	\$ <u>2,275</u> [1,750]
\$50,000.01–\$100,000	\$ <u>2,925</u> [2,250]
\$100,000.01–\$250,000	\$ <u>4,225</u> [3,250]
\$250,000.01–\$500,000	\$ <u>5,040</u> [3,875]
\$500,000.01–\$1,000,000	\$ <u>6,800</u> [5,225]
\$1,000,000.01–\$5,000,000	\$ <u>9,570</u> [6,375]
\$5,000,000.01–\$10,000,000	\$ <u>10,575</u> [7,050]
Over \$10,000,000	\$ <u>10,950</u> [7,300]
Non-Monetary/Not Specified	\$ <u>5,005</u> [3,850]

(b) through (e) No Change.

* * * * *

13000. CODE OF ARBITRATION PROCEDURE FOR INDUSTRY DISPUTES

* * * * *

13900. Fees Due When a Claim Is Filed

(a) Fees for Claims Filed by Associated Persons

(1) Associated persons who file a claim, counterclaim, cross claim or third party claim must pay a filing fee in the amount indicated in the schedule below.

Filing Fees for Claims Filed by Associated Persons

Amount of Claim (exclusive of interest and expenses)	Filing Fee
\$.01 to \$1,000	\$50
\$1,000.01 to \$2,500	\$75
\$2,500.01 to \$5,000	\$175
\$5,000.01 to \$10,000	\$325
\$10,000.01 to \$25,000	\$425
\$25,000.01 to \$50,000	\$600
\$50,000.01 to \$100,000	\$975
\$100,000.01 to \$500,000	<u>\$1,790</u> [1,425]
\$500,000.01 to \$1,000,000	<u>\$2,175</u> [1,740]
\$1,000,000.01 to \$5,000,000	<u>\$2,540</u> [2,025]
Over \$5,000,000	<u>\$2,875</u> [2,300]
Non-Monetary/Not Specified	<u>\$2,000</u> [1,600]

(2) If the claim does not request or specify money damages, the Director may determine that the filing fee should be more or less than the amount specified in the schedule above, but in any event, the amount of the filing fee may not be less than \$50 or more than \$2,875[2,300].

(3) through (4) No Change.

(b) Fees for Claims Filed by Members

(1) Members filing a claim, counterclaim, cross claim, or third party claim must pay a filing fee in the amount indicated in the schedule below. Failure to pay the required amount will result in a deficiency under Rule 13307.

Fees for Claims Filed by Members

Amount of Claim (exclusive of interest and expenses)	Filing Fee
\$.01 to \$1,000	\$225
\$1,000.01 to \$2,500	\$350
\$2,500.01 to \$5,000	\$525
\$5,000.01 to \$10,000	\$750
\$10,000.01 to \$25,000	\$1,050
\$25,000.01 to \$50,000	\$1,450
\$50,000.01 to \$100,000	\$1,750
\$100,000.01 to \$500,000	<u>\$2,660</u> [2,125]
\$500,000.01 to \$1,000,000	<u>\$3,320</u> [2,650]
\$1,000,000.01 to \$5,000,000	<u>\$4,440</u> [3,550]
Over \$5,000,000	<u>\$5,250</u> [4,200]
Non-Monetary/Not Specified	<u>\$2,250</u> [1,800]

(2) If the claim does not request or specify money damages, the Director may determine that the filing fee should be more or less than the amount specified in the schedule above, but in any event, the filing fee may not be less than \$225 or more than \$5,250[4,200].

(c) Partial Refund of Filing Fee

(1) If a claim is settled or withdrawn more than 10 days before the date that the hearing on the merits under Rule 13600 is scheduled to begin, a party paying a filing fee will receive a partial refund of the filing fee in the amount indicated in the schedule below, less any other fees or costs assessed against the party under the Code, including any hearing session fees assessed under Rule 13902. No refund will be paid if FINRA receives notice that a claim is settled or withdrawn within 10 days of the date that the hearing on the merits under Rule 13600 is scheduled to begin.

Partial Refund for Settlement or Withdrawal More Than 10 Days Before Hearing on the Merits

Amount of Claim (exclusive of interest and expenses)	Refund
\$.01 to \$1,000	\$25
\$1,000.01 to \$2,500	\$50
\$2,500.01 to \$5,000	\$125
\$5,000.01 to \$10,000	\$250
\$10,000.01 to \$25,000	\$300

\$25,000.01 to \$50,000	\$450
\$50,000.01 to \$100,000	\$750
\$100,000.01 to \$500,000	<u>\$1,410</u> [1,125]
\$500,000.01 to \$1,000,000	<u>\$1,625</u> [1,300]
\$1,000,000.01 to \$5,000,000	<u>\$1,750</u> [1,400]
Over \$5,000,000	<u>\$1,875</u> [1,500]
Non-Monetary/Not specified	<u>\$1,500</u> [1,200]

(2) No Change.

(d) No Change.

13901. Member Surcharge

(a) A surcharge in the amount indicated in the schedule below will be assessed against each member that:

(1) through (3) No Change.

Member Surcharge

Amount of Claim (exclusive of interest and expenses)	Surcharge
\$.01 to \$5,000	<u>\$165</u> [150]
\$5,000.01–\$10,000	<u>\$360</u> [325]
\$10,000.01–\$25,000	<u>\$495</u> [450]

\$25,000.01–\$50,000	\$ <u>975</u> [750]
\$50,000.01–\$100,000	\$ <u>1,430</u> [1,100]
\$100,000.01–\$250,000	\$ <u>2,210</u> [1,700]
\$250,000.01–\$500,000	\$ <u>2,640</u> [2,025]
\$500,000.01–\$1,000,000	\$ <u>3,420</u> [2,625]
\$1,000,000.01–\$5,000,000	\$ <u>4,800</u> [3,200]
\$5,000,000.01–\$10,000,000	\$ <u>5,775</u> [3,850]
Over \$10,000,000	\$ <u>6,490</u> [4,325]
Non-Monetary/Not Specified	\$ <u>2,600</u> [2,000]

(b) If the claim does not request or specify money damages, the Director may determine that the member surcharge should be more or less than the amount specified in the schedule above, but in any event the amount of the member surcharge may not be less than \$165[150] or more than \$6,490[4,325].

(c) through (g) No Change.

13902. Hearing Session Fees, and Other Costs and Expenses

(a) Hearing Session Fees

(1) Hearing session fees will be charged for each hearing session. The total amount chargeable to the parties for each hearing session is based on the

amount in dispute, as specified in the schedule below. In the award, the panel will determine the amount of each hearing session fee that each party must pay.

Hearing Session Fees

Amount of Claim (exclusive of interest and expenses)	Hearing Session W/ One Arbitrator	Hearing Session W/ Three Arbitrators
Up to \$2,500	\$50	N/A
\$2,500.01 to \$5,000	\$125	N/A
\$5,000.01 to \$10,000	\$250	N/A
\$10,000.01 to \$25,000	\$450	N/A
\$25,000.01 to \$50,000	\$450	\$600
\$50,000.01 to \$100,000	\$450	\$750
\$100,000.01 to \$500,000	\$ <u>675</u> [450]	\$ <u>1,690</u> [1,125]
\$500,000.01 to \$1,000,000	\$ <u>675</u> [450]	\$ <u>1,990</u> [1,325]
\$1,000,000.01 to \$5,000,000	\$ <u>675</u> [450]	\$ <u>2,160</u> [1,435]
Over \$5,000,000	\$ <u>675</u> [450]	\$ <u>2,370</u> [1,575]
Non-Monetary / Not Specified	\$ <u>675</u> [450]	\$ <u>1,725</u> [1,150]

(2) If the claim does not request or specify money damages, the Director may determine that the hearing session fee should be more or less than the amount

specified in the schedule above, but in any event the hearing session fee shall not be less than \$50 or more than \$2,370[1,575] for each hearing session.

(3) through (4) No Change.

(b) through (e) No Change.

13903. Process Fees Paid by Members

(a) Each member that is a party to an arbitration in which more than \$25,000, exclusive of interest and expenses, is in dispute must pay non-refundable process fee, due at the time the parties are sent arbitrator lists in accordance with Rule 13403(b), as set forth in the schedule below.

Process Fee Schedule

Amount of Claim (exclusive of interest and expenses)	Process Fee
\$.01–\$25,000	\$ 0
\$25,000.01–\$50,000	<u>\$2,275</u> [1,750]
\$50,000.01–\$100,000	<u>\$2,925</u> [2,250]
\$100,000.01–\$250,000	<u>\$4,225</u> [3,250]
\$250,000.01–\$500,000	<u>\$5,040</u> [3,875]
\$500,000.01–\$1,000,000	<u>\$6,800</u> [5,225]
\$1,000,000.01–\$5,000,000	<u>\$9,570</u> [6,375]
\$5,000,000.01–\$10,000,000	<u>\$10,575</u> [7,050]

Over \$10,000,000	<u>\$10,950</u> [7,300]
Non-Monetary/Not Specified	<u>\$5,005</u> [3,850]

(b) – (e) No Change.

* * * * *

EXHIBIT 5B

Below is the text of the proposed rule change to take effect on July 1, 2025, with the proposed changes in Exhibit 5A shown as if adopted. Proposed new language in this Exhibit 5B is underlined; proposed deletions are in brackets.

* * * * *

BY-LAWS OF THE CORPORATION

* * * * *

SCHEDULE A TO THE BY-LAWS OF THE CORPORATION

Assessments and fees pursuant to the provisions of Article VI of the By-Laws of the Corporation shall be determined on the following basis.

* * * * *

Section 7 — Fees for Filing Documents Pursuant to the [Corporate

Financing]Securities Offering Rules

(a) There shall be a fee imposed for the filing of initial documents relating to any offering filed with FINRA pursuant to the Corporate Financing Rule equal to: (1) \$500 plus .015% of the proposed maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), but shall not exceed \$1,125,000 [225,500]; or (2) \$270,000[225,500] for an offering of securities [on an automatically effective Form S-3 or F-3 registration statement] filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in Securities Act Rule 405. The amount of the filing fee may be rounded to the nearest dollar.

(b) There shall be an additional fee imposed for the filing of any amendment or other change to the documents initially filed with FINRA pursuant to the Corporate Financing Rule equal to .015% of the net increase in the maximum aggregate offering

price or other applicable value of all securities registered on an SEC registration statement, or any related Securities Act Rule 462(b) registration statement, or reflected on any Securities Act Rule 430A prospectus, or included on any other type of offering document. However, the aggregate of all filing fees paid in connection with an SEC registration statement or other type of offering document shall not exceed \$1,125,000[225,500] or \$270,000 for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in Securities Act Rule 405.

(c) There shall be a fee imposed for the filing of a private placement memorandum, term sheet or other offering document with FINRA pursuant to FINRA Rules 5122 or 5123 equal to: (1) \$300 plus .008% of the proposed maximum offering proceeds, but shall not exceed \$40,300.00. A member shall not be charged this fee if the proposed maximum offering proceeds are less than \$25,000,000. The amount of the filing fee may be rounded to the nearest dollar.

* * * * *

EXHIBIT 5C

Below is the text of the proposed rule change to take effect on January 1, 2026, with the proposed changes in Exhibits 5A and 5B shown as if adopted. Proposed new language in this Exhibit 5C is underlined; proposed deletions are in brackets.

* * * * *

BY-LAWS OF THE CORPORATION

* * * * *

Schedule A to the By-Laws of the Corporation

Assessments and fees pursuant to the provisions of Article VI of the By-Laws of the Corporation shall be determined on the following basis.

Section 1 — Member Regulatory Fees

(a) No Change.

(b) Each member shall be assessed a Trading Activity Fee for the sale of covered securities.

(1) through (2) No Change.

(3) Fee Rates*

(A) through (E) No Change.

(4) No Change.

(c) Subject to paragraph (d), each member shall pay an annual Gross Income Assessment equal to the greater of:

(1) the total of:

(A) \$1,200.00 on annual gross revenue up to \$1 million;

(B) [0.1732]0.1827% of annual gross revenue greater than \$1 million up to \$25 million;

(C) [~~0.3705~~0.3909% of annual gross revenue greater than \$25 million up to \$50 million;

(D) [~~0.0738~~0.0779% of annual gross revenue greater than \$50 million up to \$100 million;

(E) [~~0.0520~~0.0549% of annual gross revenue greater than \$100 million up to \$5 billion;

(F) [~~0.0566~~0.0597% of annual gross revenue greater than \$5 billion up to \$25 billion; and

(G) [~~0.1219~~0.1286% of annual gross revenue greater than \$25 billion; or

(2) No Change.

(d) No Change.

(e) Each member shall pay an annual Personnel Assessment equal to:

(1) ~~\$245~~[210].00 per principal and each representative up to five principals and representatives as defined below;

(2) ~~\$235~~[200].00 per principal and each representative for six principals and representatives up to twenty-five principals and representatives as defined below; or

(3) ~~\$225~~[190].00 per principal and each representative for twenty-six or more principals and representatives as defined below.

A principal or representative is defined as a principal or representative in the member's organization who is registered with FINRA as of December 31st of the prior fiscal year.

* Trading Activity Fee rates are as follows: Each member shall pay to FINRA: (1) \$0.000195[0.000166] per share for each sale of a covered equity security, with a maximum charge of \$9.79[8.30] per trade; (2) \$0.00329[0.00279] per contract for each sale of an option; (3) \$0.000135[0.00011] per contract for each round turn transaction of a security future, provided there is a minimum charge of \$0.016[0.014] per round turn transaction; (4) \$0.00124[0.00105] per bond for each sale of a covered TRACE-Eligible Security (other than an Asset-Backed Security) and/or municipal security, with a maximum charge of \$1.24[1.05] per trade; and (5) \$0.00000124[0.00000105] times the value, as reported to TRACE, of a sale of an Asset-Backed Security, with a maximum charge of \$1.24[1.05] per trade. In addition, if the execution price for a covered security is less than the Trading Activity Fee rate (\$0.000195[0.000166] for covered equity securities, \$0.00329[0.00279] for covered option contracts, or \$0.016[0.014] for a security future) on a per share, per contract, or round turn transaction basis then no fee will be assessed.

Section 4 — Fees

(a)(1) Each member shall be assessed a registration fee of \$105[75].00 and a branch office system processing fee of \$75.00 upon the registration of each branch office, as defined in the By-Laws.

(2) FINRA shall waive, for the first branch office registered by a member, payment of the \$105[75].00 registration fee and the \$75.00 branch office system processing fee (where such fees have been assessed pursuant to paragraph (a)(1)).

(3) Each member also shall be assessed:

(A) an annual registration fee of:

(i) \$245.00[175], for each of the first 250 branch offices registered by the member;

(ii) \$210.00[150], for each of branch offices 251 to 500 registered by the member;

(iii) \$175.00[125], for each of branch offices 501 to 1,000 registered by the member;

(iv) \$140.00[100], for each of branch offices 1,001 to 2,000 registered by the member;

(v) \$105.00[75], for every branch office greater than 2,000 registered by the member; and

(B) No Change.

(4) FINRA shall waive, for one branch office per member per year, payment of the \$245.00[175] annual registration fee (where such fee has been assessed pursuant to paragraph (a)(3)(A)(i) and the \$75.00 annual branch office system processing fee assessed pursuant to paragraph (a)(3)(B).

(b) FINRA shall assess each member [a] the following fees [of]:

(1) through (6) No Change.

(7) [\$70.00 annually for each of the member's registered representatives and principals for system processing] An annual system processing fee based on the number of securities regulators with which the registered person of a member is registered, excluding registration as an investment adviser representative, of:

(A) \$70.00 for 1 to 5 regulators;

(B) \$95.00 for 6 to 20 regulators;

(C) \$110.00 for 21 to 40 regulators; or

(D) \$125.00 for more than 40 regulators; and

(8) No Change.

(c) The following fees shall be assessed to each individual who takes an examination as described below. These fees are in addition to the registration fee described in paragraph (b) and any other fees that the owner of an examination that FINRA administers may assess.

Examination Number	Examination Name	Examination Fee
N/A	Securities Industry Essentials (SIE) Examination	<u>\$100</u> [80]
Series 4	Registered Options Principal Examination	<u>\$200</u> [155]
Series 6	Investment Company Products and Variable Contracts Representative Examination	<u>\$100</u> [75]
Series 7	General Securities Representative Examination	<u>\$395</u> [300]
Series 9	General Securities Sales Supervisor Examination — Options Module	<u>\$175</u> [130]
Series 10	General Securities Sales Supervisor Examination — General Module	<u>\$235</u> [175]

Series 14	Compliance Official Examination	<u>\$450</u> [350]
Series 16	Supervisory Analyst Examination	<u>\$325</u> [245]
Series 22	Direct Participation Programs Representative Examination	<u>\$100</u> [60]
Series 23	General Securities Principal Examination — Sales Supervisor Module	<u>\$135</u> [105]
Series 24	General Securities Principal Examination	<u>\$235</u> [175]
Series 26	Investment Company Products and Variable Contracts Principal Examination	<u>\$200</u> [150]
Series 27	Financial and Operations Principal Examination	<u>\$235</u> [175]
Series 28	Introducing Broker-Dealer Financial and Operations Principal Examination	<u>\$195</u> [150]
Series 39	Direct Participation Programs Principal Examination	<u>\$200</u> [100]
Series 50	Municipal Advisor Representative Examination	\$115

Series 51	Municipal Fund Securities Limited Principal Examination	\$105
Series 52	Municipal Securities Representative Examination	\$110
Series 53	Municipal Securities Principal Examination	\$115
Series 54	Municipal Advisor Principal Examination	\$115
Series 57	Securities Trader Examination	<u>\$105</u> [80]
Series 79	Investment Banking Representative Examination	<u>\$395</u> [300]
Series 82	Private Securities Offering Representative Examination	<u>\$100</u> [60]
Series 86	Research Analyst Examination — Analysis	<u>\$295</u> [225]
Series 87	Research Analyst Examination — Regulatory	<u>\$195</u> [150]
Series 99	Operations Professional Examination	<u>\$100</u> [60]

(1) through (4) No Change.

(d) through (e) No Change.

(f)(1) There shall be a session fee of \$25[18] assessed to each individual who completes the Regulatory Element of the Continuing Education requirements pursuant to FINRA rules.

(2) No Change.

(g) No Change.

(h) FINRA shall assess each member a fee of \$100.00 on the first day and \$40[25].00 for each subsequent day, up to a maximum of \$2,460[1,575], that a new disclosure event or a change in the status of a previously reported disclosure event is not timely filed as required by FINRA on an initial Form U5, an amendment to a Form U5, or an amendment to a Form U4, with such fee to be assessed starting on the day following the last date on which the event was required to be reported.

(i) No Change.

* * * * *

Section 7 — Fees for Filing Documents Pursuant to the Securities Offering Rules

(a) There shall be a fee imposed for the filing of initial documents relating to any offering filed with FINRA pursuant to the Corporate Financing Rule equal to: (1) \$500 plus .015% of the proposed maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), but shall not exceed \$1,125,000; or (2) \$324,000[270,000] for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in

Securities Act Rule 405. The amount of the filing fee may be rounded to the nearest dollar.

(b) There shall be an additional fee imposed for the filing of any amendment or other change to the documents initially filed with FINRA pursuant to the Corporate Financing Rule equal to .015% of the net increase in the maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement, or any related Securities Act Rule 462(b) registration statement, or reflected on any Securities Act Rule 430A prospectus, or included on any other type of offering document. However, the aggregate of all filing fees paid in connection with an SEC registration statement or other type of offering document shall not exceed \$1,125,000 or \$324,000[270,000] for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in Securities Act Rule 405.

(c) No Change.

* * * * *

Section 15 — Funding Portal Member Fees

(a) through (d) No Change.

(e) FINRA shall assess each funding portal member a fee of \$100 on the first day and \$40[25] for each subsequent day, up to a maximum of \$2,460[1,575], that a new disclosure event or a change in the status of a previously reported matter is not timely filed pursuant to Funding Portal Rule 800(b)(2).

(f) through (h) No Change.

* * * * *

EXHIBIT 5D

Below is the text of the proposed rule change to take effect on January 1, 2027, with the proposed changes in Exhibits 5A, 5B and 5C shown as if adopted. Proposed new language in this Exhibit 5D is underlined; proposed deletions are in brackets.

* * * * *

BY-LAWS OF THE CORPORATION

* * * * *

Schedule A to the By-Laws of the Corporation

Assessments and fees pursuant to the provisions of Article VI of the By-Laws of the Corporation shall be determined on the following basis.

Section 1 — Member Regulatory Fees

(a) No Change.

(b) Each member shall be assessed a Trading Activity Fee for the sale of covered securities.

(1) through (2) No Change.

(3) Fee Rates*

(A) through (E) No Change.

(4) No Change.

(c) Subject to paragraph (d), each member shall pay an annual Gross Income Assessment equal to the greater of:

(1) the total of:

(A) \$1,200.00 on annual gross revenue up to \$1 million;

(B) [0.1827]0.2056% of annual gross revenue greater than \$1 million up to \$25 million;

(C) [~~0.3909~~]0.4397% of annual gross revenue greater than \$25 million up to \$50 million;

(D) [~~0.0779~~]0.0876% of annual gross revenue greater than \$50 million up to \$100 million;

(E) [~~0.0549~~]0.0618% of annual gross revenue greater than \$100 million up to \$5 billion;

(F) [~~0.0597~~]0.0672% of annual gross revenue greater than \$5 billion up to \$25 billion; and

(G) [~~0.1286~~]0.1447% of annual gross revenue greater than \$25 billion; or

(2) No Change.

(d) No Change.

(e) Each member shall pay an annual Personnel Assessment equal to:

(1) ~~\$260~~[~~245~~].00 per principal and each representative up to five principals and representatives as defined below;

(2) ~~\$250~~[~~235~~].00 per principal and each representative for six principals and representatives up to twenty-five principals and representatives as defined below; or

(3) ~~\$240~~[~~225~~].00 per principal and each representative for twenty-six or more principals and representatives as defined below.

A principal or representative is defined as a principal or representative in the member's organization who is registered with FINRA as of December 31st of the prior fiscal year.

* Trading Activity Fee rates are as follows: Each member shall pay to FINRA: (1) \$0.000232[0.000195] per share for each sale of a covered equity security, with a maximum charge of \$11.61[9.79] per trade; (2) \$0.00390[0.00329] per contract for each sale of an option; (3) \$0.00016[0.000135] per contract for each round turn transaction of a security future, provided there is a minimum charge of \$0.019[0.016] per round turn transaction; (4) \$0.00147[0.00124] per bond for each sale of a covered TRACE-Eligible Security (other than an Asset-Backed Security) and/or municipal security, with a maximum charge of \$1.47[1.24] per trade; and (5) \$0.00000147 [0.00000124] times the value, as reported to TRACE, of a sale of an Asset-Backed Security, with a maximum charge of \$1.47[1.24] per trade. In addition, if the execution price for a covered security is less than the Trading Activity Fee rate (\$0.000232[0.000195] for covered equity securities, \$0.00390[0.00329] for covered option contracts, or \$0.019[0.016] for a security future) on a per share, per contract, or round turn transaction basis then no fee will be assessed.

* * * * *

Section 7 — Fees for Filing Documents Pursuant to the Securities Offering Rules

(a) There shall be a fee imposed for the filing of initial documents relating to any offering filed with FINRA pursuant to the Corporate Financing Rule equal to: (1) \$500 plus .015% of the proposed maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), but shall not exceed \$1,125,000; or (2) \$389,000[324,000] for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in

Securities Act Rule 405. The amount of the filing fee may be rounded to the nearest dollar.

(b) There shall be an additional fee imposed for the filing of any amendment or other change to the documents initially filed with FINRA pursuant to the Corporate Financing Rule equal to .015% of the net increase in the maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement, or any related Securities Act Rule 462(b) registration statement, or reflected on any Securities Act Rule 430A prospectus, or included on any other type of offering document. However, the aggregate of all filing fees paid in connection with an SEC registration statement or other type of offering document shall not exceed \$1,125,000 or \$389,000[324,000] for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in Securities Act Rule 405.

(c) No Change.

* * * * *

EXHIBIT 5E

Below is the text of the proposed rule change to take effect on January 1, 2028, with the proposed changes in Exhibits 5A, 5B, 5C and 5D shown as if adopted. Proposed new language in this Exhibit 5E is underlined; proposed deletions are in brackets.

* * * * *

BY-LAWS OF THE CORPORATION

* * * * *

Schedule A to the By-Laws of the Corporation

Assessments and fees pursuant to the provisions of Article VI of the By-Laws of the Corporation shall be determined on the following basis.

Section 1 — Member Regulatory Fees

(a) No Change.

(b) Each member shall be assessed a Trading Activity Fee for the sale of covered securities.

(1) through (2) No Change.

(3) Fee Rates*

(A) through (E) No Change.

(4) No Change.

(c) Subject to paragraph (d), each member shall pay an annual Gross Income Assessment equal to the greater of:

(1) the total of:

(A) \$1,200.00 on annual gross revenue up to \$1 million;

(B) [0.2056]0.2280% of annual gross revenue greater than \$1 million up to \$25 million;

(C) [~~0.4397~~]0.4877% of annual gross revenue greater than \$25 million up to \$50 million;

(D) [~~0.0876~~]0.0972% of annual gross revenue greater than \$50 million up to \$100 million;

(E) [~~0.0618~~]0.0685% of annual gross revenue greater than \$100 million up to \$5 billion;

(F) [~~0.0672~~]0.0745% of annual gross revenue greater than \$5 billion up to \$25 billion; and

(G) [~~0.1447~~]0.1604% of annual gross revenue greater than \$25 billion; or

(2) No Change.

(d) No Change.

(e) Each member shall pay an annual Personnel Assessment equal to:

(1) ~~\$270~~[~~260~~].00 per principal and each representative up to five principals and representatives as defined below;

(2) ~~\$260~~[~~250~~].00 per principal and each representative for six principals and representatives up to twenty-five principals and representatives as defined below; or

(3) ~~\$250~~[~~240~~].00 per principal and each representative for twenty-six or more principals and representatives as defined below.

A principal or representative is defined as a principal or representative in the member's organization who is registered with FINRA as of December 31st of the prior fiscal year.

* Trading Activity Fee rates are as follows: Each member shall pay to FINRA: (1) \$0.000240[0.000232] per share for each sale of a covered equity security, with a maximum charge of \$12.05[11.61] per trade; (2) \$0.00404[0.00390] per contract for each sale of an option; (3) \$0.000166[0.00016] per contract for each round turn transaction of a security future, provided there is a minimum charge of \$0.020[0.019] per round turn transaction; (4) \$0.00153[0.00147] per bond for each sale of a covered TRACE-Eligible Security (other than an Asset-Backed Security) and/or municipal security, with a maximum charge of \$1.53[1.47] per trade; and (5) \$0.00000153[0.00000147] times the value, as reported to TRACE, of a sale of an Asset-Backed Security, with a maximum charge of \$1.53[1.47] per trade. In addition, if the execution price for a covered security is less than the Trading Activity Fee rate (\$0.000240[0.000232] for covered equity securities, \$0.00404[0.00390] for covered option contracts, or \$0.020[0.019] for a security future) on a per share, per contract, or round turn transaction basis then no fee will be assessed.

* * * * *

Section 4 — Fees

(a)(1) Each member shall be assessed a registration fee of \$105.00 and a branch office system processing fee of \$105[75].00 upon the registration of each branch office, as defined in the By-Laws.

(2) FINRA shall waive, for the first branch office registered by a member, payment of the \$105.00 registration fee and the \$105[75].00 branch office system processing fee (where such fees have been assessed pursuant to paragraph (a)(1)).

(3) Each member also shall be assessed:

(A) No Change.

(B) an annual branch office system processing fee of \$105[75].00 per registered branch.

(4) FINRA shall waive, for one branch office per member per year, payment of the \$245 annual registration fee (where such fee has been assessed pursuant to paragraph (a)(3)(A)(i) and the \$105[75].00 annual branch office system processing fee assessed pursuant to paragraph (a)(3)(B).

(b) FINRA shall assess each member the following fees:

(1) \$175[125].00 for each initial Form U4 filed by the member with FINRA for the registration of a representative or principal, except that the following discounts shall apply to the filing of Forms U4 to transfer the registration of representatives or principals in connection with acquisition of all or a part of a member's business by another member:

Number of Registered Personnel Transferred	Discount
1,000–1,999	10%
2,000–2,999	20%
3,000–3,999	30%
4,000–4,999	40%
5,000 and over	50%

(2) \$70[50].00 for each initial Form U5 filed by the member with FINRA for the termination of a registered representative or registered principal, plus a late filing fee of \$140[100].00 if the member fails to file the initial Form U5 within 30 days after the date of termination;

(3) \$215[155].00 for the additional processing of each initial or amended Form U4, Form U5 or Form BD that includes the initial reporting, amendment, or certification of one or more disclosure events or proceedings;

(4) \$28[20].00 for processing and posting to the CRD system each set of fingerprints submitted electronically by the member to FINRA, plus any other charge that may be imposed by the United States Department of Justice for processing each set of fingerprints;

(5) \$42[30].00 for processing and posting to the CRD system each set of fingerprint cards submitted in non-electronic format by the member to FINRA, plus any other charge that may be imposed by the United States Department of Justice for processing each set of fingerprints;

(6) \$42[30].00 for processing and posting to the CRD system each set of fingerprint results and identifying information that have been processed through another self-regulatory organization and submitted by a member to FINRA;

(7) An annual system processing fee based on the number of securities regulators with which the registered person of a member is registered, excluding registration as an investment adviser representative, of:

(A) \$100[70].00 for 1 to 5 regulators;

(B) \$125[95].00 for 6 to 20 regulators;

(C) \$140[110].00 for 21 to 40 regulators; or

(D) \$155[125].00 for more than 40 regulators; and

(8) 10% of a member's final annual renewal assessment or \$140[100], whichever is greater, with a maximum charge of \$7,000[5,000], if the member fails timely to pay the amount indicated on its preliminary annual renewal statement.

(c) through (i) No Change.

* * * * *

Section 7 — Fees for Filing Documents Pursuant to the Securities Offering Rules

(a) There shall be a fee imposed for the filing of initial documents relating to any offering filed with FINRA pursuant to the Corporate Financing Rule equal to: (1) \$500 plus .015% of the proposed maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), but shall not exceed \$1,125,000; or (2) \$467,000[389,000] for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in Securities Act Rule 405. The amount of the filing fee may be rounded to the nearest dollar.

(b) There shall be an additional fee imposed for the filing of any amendment or other change to the documents initially filed with FINRA pursuant to the Corporate Financing Rule equal to .015% of the net increase in the maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement, or any related Securities Act Rule 462(b) registration statement, or reflected on any Securities Act Rule 430A prospectus, or included on any other type of offering document. However, the aggregate of all filing fees paid in connection with an SEC registration statement or other type of offering document shall not exceed \$1,125,000 or

\$467,000[389,000] for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in Securities Act Rule 405.

(c) No Change.

* * * * *

Section 15 — Funding Portal Member Fees

(a) through (f) No Change.

(g) A funding portal member shall pay \$28[20] for processing and posting to the CRD system each set of fingerprints submitted electronically by the member, or \$42[30] if submitted in non-electronic format, to FINRA, plus any other charge that may be imposed by the United States Department of Justice for processing each set of fingerprints.

(h) No Change.

* * * * *

EXHIBIT 5F

Below is the text of the proposed rule change to take effect on January 1, 2029, with the proposed changes in Exhibits 5A, 5B, 5C, 5D and 5E shown as if adopted. Proposed new language in this Exhibit 5F is underlined; proposed deletions are in brackets.

* * * * *

BY-LAWS OF THE CORPORATION

* * * * *

Schedule A to the By-Laws of the Corporation

Assessments and fees pursuant to the provisions of Article VI of the By-Laws of the Corporation shall be determined on the following basis.

Section 1 — Member Regulatory Fees

(a) No Change.

(b) Each member shall be assessed a Trading Activity Fee for the sale of covered securities.

(1) through (2) No Change.

(3) Fee Rates*

(A) through (E) No Change.

(4) No Change.

(c) through (d) No Change.

(e) Each member shall pay an annual Personnel Assessment equal to:

(1) \$295[270].00 per principal and each representative up to five principals and representatives as defined below;

(2) \$285[260].00 per principal and each representative for six principals and representatives up to twenty-five principals and representatives as defined below; or

(3) \$275[250].00 per principal and each representative for twenty-six or more principals and representatives as defined below.

A principal or representative is defined as a principal or representative in the member's organization who is registered with FINRA as of December 31st of the prior fiscal year.

* Trading Activity Fee rates are as follows: Each member shall pay to FINRA: (1) \$0.000249[0.000240] per share for each sale of a covered equity security, with a maximum charge of \$12.50[12.05] per trade; (2) \$0.00420[0.00404] per contract for each sale of an option; (3) \$0.000172[0.000166] per contract for each round turn transaction of a security future, provided there is a minimum charge of \$0.021[0.020] per round turn transaction; (4) \$0.00158[0.00153] per bond for each sale of a covered TRACE-Eligible Security (other than an Asset-Backed Security) and/or municipal security, with a maximum charge of \$1.58[1.53] per trade; and (5) \$0.00000158[0.00000153] times the value, as reported to TRACE, of a sale of an Asset-Backed Security, with a maximum charge of \$1.58[1.53] per trade. In addition, if the execution price for a covered security is less than the Trading Activity Fee rate (\$0.000249[0.000240] for covered equity securities, \$0.00420[0.00404] for covered option contracts, or \$0.021[0.020] for a security future) on a per share, per contract, or round turn transaction basis then no fee will be assessed.

* * * * *

Section 7 — Fees for Filing Documents Pursuant to the Securities Offering Rules

(a) There shall be a fee imposed for the filing of initial documents relating to any offering filed with FINRA pursuant to the Corporate Financing Rule equal to: (1) \$500

plus .015% of the proposed maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), but shall not exceed \$1,125,000; or (2) \$560,000[467,000] for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in Securities Act Rule 405. The amount of the filing fee may be rounded to the nearest dollar.

(b) There shall be an additional fee imposed for the filing of any amendment or other change to the documents initially filed with FINRA pursuant to the Corporate Financing Rule equal to .015% of the net increase in the maximum aggregate offering price or other applicable value of all securities registered on an SEC registration statement, or any related Securities Act Rule 462(b) registration statement, or reflected on any Securities Act Rule 430A prospectus, or included on any other type of offering document. However, the aggregate of all filing fees paid in connection with an SEC registration statement or other type of offering document shall not exceed \$1,125,000 or \$560,000[467,000] for an offering of securities filed with the SEC and offered pursuant to Securities Act Rule 415 by a Well-Known Seasoned Issuer as defined in Securities Act Rule 405.

(c) No Change.

* * * * *