Regulatory Notice 25-06

Supporting Capital Formation

FINRA Requests Comment on Modernizing FINRA Rules, Guidance and Processes to Facilitate Capital Formation

Comment Period Expires: May 19, 2025

Summary

A vibrant and efficient capital-raising process fosters business expansion, job creation, innovation and economic growth. FINRA members play a critical role in facilitating capital formation for businesses of all sizes. FINRA supports the capital-raising process through appropriately tailored rules for its members that are designed for the benefit of all market participants.

As a self-regulatory organization (SRO), FINRA is committed to continuous improvement that draws on deep engagement with its member firms. Regularly modernizing rules and regulatory oversight benefits member firms, investors and other market participants, as well as the broader economy. As part of its commitment to continuous improvement, FINRA is conducting a broad review of its regulatory requirements applicable to member firms and associated persons.[1] FINRA has identified capital formation as an initial area of focus for this review.

Over the years, FINRA has published *Regulatory Notices* requesting comment on ways to increase efficiency and reduce unnecessary costs and burdens to promote capital formation, and has updated its regulatory framework based on that feedback. As part of the broad rule modernization review, this *Notice* requests comment on whether additional changes to FINRA rules, guidance, operations or administrative processes would further facilitate capital formation and reduce unnecessary regulatory costs and burdens impacting the capital-raising process.

FINRA

March 20, 2025

Notice Type

- Request for Comment

Suggested Routing

- Compliance
- Corporate Finance
- Institutional
- Investment Banking
- Legal
- Research
- Senior Management
- Underwriting

Key Topics

- Capital Acquisition Brokers
- Capital Formation
- Corporate Financing
- Investment Banking
- Limited Purpose Broker-Dealers
- Private Placements
- Public Offerings
- Research

Referenced Rules & Notices

- Capital Acquisition Broker Rules
- Fair Access to Investment Research Act
- FINRA Rules 2210, 2241, 2242, 2310, 5110, 5121, 5122, 5123, 5130, 5131, 11880
- JOBS Act
- Regulation A
- Regulation ATS
- Regulation Crowdfunding
- Regulatory Notices 09-05, 16-37, 17-14, 19-32, 20-04, 20-10, 21-10, 22-24, 23-09, 24-17, 25-04
- Sarbanes-Oxley Act
- SEA Rule 15c2-11
- SEC Regulation Analyst Certification

Questions regarding this *Notice* should be directed to:

- Joseph Sheirer, Senior Vice President, Corporate Financing & Advertising Regulation, by email or (732) 596-2025;
- Micah Hauptman, Associate General Counsel, Office of General Counsel (OGC), by email or (202) 728-8123; or
- Matthew Vitek, Associate General Counsel, OGC, by email or (240) 386-6490.

Action Requested

FINRA encourages all interested parties to comment. Comments must be received by May 19, 2025.

Comments must be submitted through one of the following methods:

- Online using FINRA's comment form for this Notice;
- Emailing comments to pubcom@finra.org; or
- Mailing comments in hard copy to:
  Jennifer Piorko Mitchell
  Office of the Corporate Secretary
  FINRA
  1700 K Street, NW
  Washington, DC 20006

To help FINRA process comments more efficiently, persons should use only one method to comment.

Important Notes: All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.[2]

Background & Discussion

A vital component of our nation's economic strength is the ability of businesses of all sizes to efficiently raise capital. This allows businesses to grow, innovate and create jobs. In turn, well-functioning securities markets that promote issuer and investor confidence are essential to the capital-formation process. FINRA members perform a critical role in the capital-raising process, which is ever-evolving, and our regulatory framework must also evolve to ensure that it continues to support capital formation.

Recent Updates to FINRA's Regulatory Framework to Support Capital Formation

In 2017 and 2023, FINRA published *Regulatory Notices* broadly requesting comment on ways to increase efficiency and reduce unnecessary costs and burdens on the capital-raising process without compromising protections for investors and issuers.[3] In response to feedback on those *Notices* from member firms and other interested parties, FINRA's experience, changes in the law and innovations in the marketplace, FINRA has revised its rules and implemented operational improvements to modernize its regulation of members' participation in capital-raising activities by amending rules, updating guidance and revamping processes.[4]

Continuing its focus on ongoing improvement, FINRA published *Regulatory Notice 24-17* requesting comment on proposed amendments to FINRA's corporate financing rules (Rules 5110 (Corporate Financing Rule—Underwriting Terms and Arrangements), 5121 (Public Offerings of Securities With Conflicts of Interest) and 5123 (Private Placements of Securities)) to further enhance capital formation.[5] Because those proposed amendments are pending, this further request for comment does not supersede them or any other requests for comment currently open.

Further Request for Comment on Supporting Capital Formation

This *Notice* seeks comment about other potential changes to further facilitate capital formation.

As discussed below, FINRA is requesting comment in several specific areas:

- capital acquisition brokers (CABs) and other limited purpose broker-dealers;
- research; and
- rules and *Regulatory Notices* setting standards for members' supporting capital formation.

In addition to these specific areas, FINRA is requesting comment on any of its rules, guidance or processes that may impose barriers to capital raising and how they might be modified to further facilitate capital formation. FINRA also welcomes comment on how its rules and programs relate to the broader regulatory framework for member firms and associated persons, and whether there are opportunities for FINRA to more closely align with the work of other regulators to promote capital formation and investor protection.[6] This feedback will assist FINRA in its rule modernization efforts.

As part of these efforts, FINRA will separately engage in its rulemaking process to propose any specific rule amendments, which includes discussions with the FINRA Board, input from FINRA's advisory committees and an opportunity for comment on specific proposed revisions in a *Notice* or rule filing with the Securities and Exchange Commission (SEC or Commission) or both. Before becoming effective, the proposed rule change must be filed with the SEC pursuant to Section 19(b) of the Securities Exchange Act of 1934 (SEA or Exchange Act).[7]

A. CABs and Other Limited Purpose Broker-Dealers

In 2016, FINRA adopted a separate dedicated rule set for CABs.[8] As defined, CABs are broker-dealers essentially focused on acting as placement agents for sales of unregistered securities to institutional investors, acting as intermediaries in connection with the change of control of privately held companies, and advising companies and private equity funds on capital raising and corporate restructuring. CABs are subject to fewer restrictions on specified activities (such as advertising) and have less extensive supervisory requirements because their activities are limited to specific, lower risk capital raising.[9]

Broker-dealers engaged in similarly limited activities have been addressed in other contexts. In December 2022, Congress amended the Exchange Act to create a registration exemption for merger and acquisition brokers (M&A Brokers).[10] M&A Brokers are persons that effect securities transactions solely in connection with the transfer of ownership of specified privately held companies, subject to certain conditions. In addition, in October 2020, the SEC proposed, but to date has not adopted, a conditional exemption from broker registration requirements for "finders" who assist issuers with raising capital in private markets by identifying potential investors.[11]

We request comment regarding CABs and other limited purpose broker-dealers, as well as other related issues of interest to commenters.

A.1. Should CABs be permitted to engage in a broader range of M&A and private placement activities than currently specified in the CAB rules?

A.2. CABs may not act as an agent for secondary transactions involving unregistered securities, other than in connection with the change of control of a privately held company. Should CABs be permitted to act as placement agents in connection with other types of secondary transactions involving unregistered securities?

A.3. CABs may act as an agent in connection with the sale of newly issued unregistered securities only to institutional investors, which does not include individual investors unless they own $5 million or more in

investments.[12] Should CABs be permitted to sell newly issued unregistered securities to less wealthy accredited investors that do not meet the $5 million threshold?

A.4. Are there any other aspects of the CAB rules that FINRA should modify that would further facilitate capital formation while protecting investors, and to better coordinate with the exemptions enacted by Congress and proposed by the SEC? For example, should CABs be exempted from, or subject to more tailored versions of, any other FINRA rules? Are there other activities in which they should be permitted to engage, or activities that should be subject to different conditions?

A.5. Should FINRA create a tailored rule set for "finders" or other types of limited purpose broker-dealers who are otherwise required to comply with the same FINRA rules as full-purpose broker-dealers?

B. Research

FINRA's research rules, Rule 2241 (Research Analysts and Research Reports) and Rule 2242 (Debt Research Analysts and Debt Research Reports), adopted in response to concerns that conflicts of interest had eroded the integrity of research, are intended to foster objectivity and transparency in research reports to provide investors with more reliable information when making investment decisions. In general, these rules require research analysts to disclose their conflicts of interest in research reports and public appearances. The rules further limit specific conflicts that cannot be effectively managed by disclosure—for example, they generally require structural separation between investment banking and research personnel.

In addition to FINRA's research rules, other regulatory requirements directly address research conflicts. These include SEC Regulation Analyst Certification (Reg AC), which is designed to ensure the views expressed by research analysts in their research reports accurately reflect their personal views,[13] as well as the 2003 Global Research Analyst Settlement (Global Settlement)—a settlement entered into by a number of broker-dealers with the SEC, SROs (then NASD and NYSE) and state regulators to address conflicts of interest between equity research analysts and investment banking.[14] The Global Settlement, which applies only to the settling firms and their successors, continues to impose additional proscriptions on those firms beyond the requirements of Rule 2241 and Reg AC.

In the many years since FINRA adopted its research rules, the research business and the role of research analysts at broker-dealers have undergone significant changes. News articles and other reports indicate that research budgets have diminished, with a concomitant reduction in coverage, due to several factors associated with changes

in public and private securities markets.[15] In particular, the articles and reports note changes to the European Union (EU) and United Kingdom (UK) regulations requiring payments for research to be unbundled from transaction costs as potentially having contributed to these changes.[16] The reduced research budgets have particularly impacted smaller issuers, as detailed in the February 2022 SEC Staff Report.[17] While the report was unable to attribute a specific cause to declining research coverage of smaller issuers, it identified several potential contributing factors including the Global Settlement and the regulatory measures taken by Congress, the SEC and SROs.[18] Recent technological advancements, including the advent of generative artificial intelligence, could further alter research business models.[19]

The various requirements governing research seek to ensure that the research information provided to investors is objective and reliable. These requirements seek to address core conflicts that may compromise research analysts' objectivity, particularly when their research is used to obtain investment banking business. Nonetheless, FINRA's requirements have not been substantially revisited in recent years while the research business has evolved.

Thus, we request comment on the following questions regarding research. To the extent members' research is adversely affected by other factors, please comment on those other factors as well.

B.1. Are FINRA's regulatory requirements around the conflicts attendant to research reports and research analysts appropriately tailored? How could the FINRA rules be more effective and efficient in relation to other regulatory requirements, including the Global Settlement? What is the Global Settlement's ongoing role in the regulation of research for the subject firms?

B.2. Are there aspects of the regulatory framework or particular requirements that may impede capital formation without a corresponding investor protection benefit? If so, which aspects?

B.3. Do the disclosure requirements in FINRA's research rules provide useful transparency of material conflicts and other valuable information to investors when making investment decisions? Should the disclosure requirements be modified? If so, how?

B.4. Are the remaining quiet periods established under Rule 2241 necessary in light of the effectiveness of the other provisions in the rule? How, if at all, should the quiet periods change?[20]

B.5. Are the exemptions in Rule 2241 (for members with limited investment banking activity) and Rule 2242 (for members with limited investment

activity, members with limited principal trading activity, and debt research reports provided to institutional investors) appropriately tailored for the current market environments? Should the conditions or carve-outs for those exemptions be modified? If so, how?

B.6. Should there be other exemptions under Rules 2241 or 2242 based on firm size, business or customer base that are consistent with investor protection?[21]

C. Rules and *Regulatory Notices* Setting Standards for Members' Supporting Capital Formation

A number of FINRA rules cover aspects of public and private securities offerings, as well as trading standards and practices. Together, these rules promote the capital-raising process through appropriately tailored requirements for members that are designed for the benefit of all market participants. FINRA is highlighting below some of those rules and related guidance followed by requests for comment on them. To the extent that there are rules and guidance not listed below that you believe have a significant impact on members' supporting capital formation, please comment on those as well.

FINRA Rule 2310 (Direct Participation Programs) requires that members participating in a public offering of direct participation programs and unlisted real estate investment trusts, referred to as Investment Programs, meet certain requirements regarding underwriting compensation, fees and expenses, perform due diligence on the Investment Program, follow specific guidelines on suitability and adhere to limits on non-cash compensation.

C.1. Have there been any developments with Investment Programs that merit reconsideration of certain aspects of Rule 2310 to facilitate capital formation while protecting investors? If so, what are they and how should FINRA address them?

C.2. Have new or revised rules, ancillary to the capital formation rules, been introduced that render certain aspects of current Rule 2310 redundant or outdated? If so, what are those rules and what specific provisions of Rule 2310 are redundant or outdated as a result?

Rule 5110 (Corporate Financing Rule—Underwriting Terms and Arrangements) addresses underwriting compensation in connection with the public offering of securities. The ability of small and large businesses to raise capital efficiently is critical to job creation and economic growth. The primary function of Rule 5110 is to protect issuers (and their investors at the time of the offering) from unfair underwriting terms and arrangements.

In 2020, FINRA amended Rule 5110 to better reflect current industry practices.[22] As noted above, we also recently proposed additional amendments to modernize and clarify other parts of Rule 5110 regarding evaluating underwriting compensation, including the valuation method for and important exceptions from securities acquisitions that are considered underwriting compensation.[23]

C.3. In addition to the recently proposed amendments currently under consideration, are there other changes to Rule 5110 that would further facilitate capital formation while protecting investors? If so, how should FINRA approach those issues?

C.4. Should any category of offerings currently subject to Rule 5110 (*e.g.*, Regulation A offerings) be considered for review under an alternative filing requirement? If so, what type of offerings should be considered and what alternative filing requirements would be appropriate to support capital raising while protecting investors?

C.5. In reviewing underwriting compensation, FINRA considers, among other things, the size of the offering, the amount of risk assumed by the underwriter, and whether the offering is an initial or secondary offering. Should these factors or other aspects of FINRA's review of underwriting compensation or previous guidance with respect to such review be reconsidered or adjusted?

Rule 5121 (Public Offerings of Securities with Conflicts of Interest) applies to public offerings of securities in which a participating member or any of its associated persons or affiliates has a conflict of interest with the issuer. If a member with a conflict of interest participates in a public offering, the rule requires "prominent disclosure" and, in certain circumstances, a qualified independent underwriter (QIU). We recently proposed amendments to Rule 5121 to simplify compliance and improve the operation of the rule by clarifying the substantive requirements of a conflicted member and a QIU.[24]

C.6. In addition to the recently proposed amendments currently under consideration, are there other changes to Rule 5121 that would further facilitate capital formation while protecting investors? If so, how should FINRA approach those issues?

FINRA Rule 5122 (Private Placements of Securities Issued by Members) requires a member to file when it offers or sells a private placement of unregistered securities by a member or control entity. Its companion rule, FINRA Rule 5123 (Private Placements of Securities), requires a member that sells any other type of private placement to file a copy of any offering documents with FINRA within 15 calendar days of the first sale, subject to various exemptions.

Both rules provide exemptions from filing for certain types of offerings, and for offerings sold solely to certain types of investors such as qualified purchasers, institutional purchasers and other sophisticated investors. FINRA recently proposed amendments to expand the exemption for certain family offices and certain entities with assets under management in excess of $5 million, consistent with the SEC's treatment of those categories.[25]

C.7. What, if any, other exemptions from filing should FINRA consider under Rules 5122 and 5123 that would further facilitate capital formation while protecting investors?

C.8. What, if any, practical issues have you experienced with the operation of Rules 5122 and 5123? How do you recommend FINRA address such issues?

FINRA has companion rules protecting the integrity of the initial public offering (IPO) process. Rule 5130 (Restrictions on the Purchase and Sale of Initial Equity Public Offerings) protects the integrity of the public offering process by ensuring that: (1) members make bona fide public offerings of securities at the offering price; (2) members do not withhold securities in a public offering for their own benefit or use such securities to reward persons who are in a position to direct future business to members; and (3) industry insiders, including members and their associated persons, do not take advantage of their insider position to purchase new issues for their own benefit at the expense of public customers.[26]

Rule 5131 (New Issue Allocations and Distributions) addresses conflicts and abuses in the allocation and distribution of new issues, including quid pro quo allocations, spinning and flipping, among other things.[27] Rule 5131 also addresses new issue pricing and trading practices, including requirements related to reports of indications of interest and final allocations, lock-up agreements and agreements among underwriters.[28] Further, the rule prohibits the acceptance of market orders for the purchase of shares of a new issue in the secondary market prior to the commencement of trading in the secondary market.[29]

C.9. Have FINRA's rules covering new issue allocations and distributions effectively and efficiently responded to the problem(s) they were intended to address?

C.10. Should these rules be reviewed in light of experience since they were adopted? What changes have occurred in the market for IPOs that affect the functioning of these rules?

In *Regulatory Notice 09-05*, FINRA reminded members of their obligations to determine whether securities are eligible for public sale and provided examples

of “red flags” that may signal that a closer look is warranted. FINRA has received feedback noting that, since 2009, the regulatory landscape for over-the-counter (OTC) equity securities has changed significantly—particularly, the Commission’s 2020 amendments to SEA Rule 15c2-11—and recommending that FINRA’s guidance in *Regulatory Notice 09-05* should be modified in light of these changes.[30] The Commission’s amendments to SEA Rule 15c2-11, among other things, require that issuer information be current and publicly available for brokers to quote their securities in the OTC market. The amendments also permit members to rely on the publicly available determinations of a “qualified interdealer quotation system”[31] with respect to the required information review, the availability of specified exceptions to SEA Rule 15c2-11, and the public availability of current issuer information.[32]

C.11. Should FINRA’s guidance to members in *Regulatory Notice 09-05* be updated in light of the amendments to SEA Rule 15c2-11? If so, how?

C.12. Which of the concerns raised in *Regulatory Notice 09-05* do commenters believe have been addressed or mitigated by the amendments to SEA Rule 15c2-11, and for which types of issuers or OTC equity securities?

D. General Request for Information

FINRA requests comment on any of its rules, guidance (*i.e.*, *Regulatory Notices*, FAQs, and other FINRA published materials) or processes that affect the capital-raising process and how they might be modified to further reduce burdens impacting capital formation. In particular, FINRA requests comment on the following questions:

D.1. Are there any other FINRA rules, guidance, operations or administrative processes that should be updated or amended that would further facilitate capital formation while protecting issuers and investors? If so, what has been your experience with these rules, guidance, operations or processes and what are your suggestions for improving them?

D.2. What have been the economic impacts, including costs and benefits, arising from FINRA’s rules on the capital-raising process? To what extent do these economic impacts differ by business attributes, such as size of the member, differences in business models, type of offering, or size or type of issuer? Can you provide quantitative information regarding any of these impacts?

D.3. Where have FINRA rules related to the capital-raising process been particularly effective or onerous? Are there areas where a revised approach might enhance capital formation while protecting issuers and investors?

D.4. What, if any, unintended consequences have arisen from FINRA's rules related to the capital-raising process?

D.5. Are there any ambiguities in the rules that FINRA should address? Are there any other types of modifications to FINRA rules that should be considered?

D.6. Can FINRA make any of its administrative processes or interpretations related to the capital-raising process more efficient and effective while protecting issuers and investors? If so, which ones and how? Are there any processes or interpretations that should be added?

D.7. Is there any additional data FINRA should obtain or provide to facilitate capital formation or to facilitate analysis of the regulatory framework?

Conclusion

FINRA's rules are one part of a larger regulatory structure that significantly affect the capital-raising process. While FINRA has actively revised its rules affecting capital raising over the years, FINRA is aware that the marketplace is constantly changing and that regulatory requirements must be monitored and revised as market changes occur. To this end, we request your feedback on the changes to the marketplace and how FINRA rules, guidance and processes should be modernized in response. FINRA looks forward to hearing from interested parties in response to this *Notice*.

Endnotes

1 *See* Regulatory Notice 25-04 (March 2025).

2 Parties should submit in their comments only personally identifiable information, such as phone numbers and addresses, that they wish to make available publicly. FINRA, however, reserves the right to redact, remove or decline to post comments that are inappropriate for publication, such as vulgar, abusive or potentially fraudulent comment letters. FINRA also reserves the right to redact or edit personally identifiable information from comment submissions.

3 *See* Regulatory Notice 17-14 (April 2017); Regulatory Notice 23-09 (May 2023).

4 For example, in 2019, FINRA amended its public communications rule, Rule 2210, to create a filing exclusion for covered investment fund research reports, and amended its research rule, Rule 2241, to eliminate the "quiet period" restrictions on publishing a report or making a public appearance concerning such funds. *See* Regulatory Notice 19-32 (September 2019). In 2020, FINRA amended its corporate financing rule, Rule 5110, to better reflect updated industry practices and amended its new issue and spinning rules, Rules 5130 and 5131, to promote capital raising regarding initial public offerings. *See* Regulatory Notice 20-10 (March 2020). In 2021, FINRA updated its Filer Form regarding its private placement rules, Rules 5122 and 5123, reducing FINRA's requests for additional information from filers. *See* Regulatory Notice 21-10 (March 2021). In 2022, FINRA amended its syndicate settlement rule, Rule 11880, accelerating payment to syndicate members in public offerings of corporate debt offerings of their earnings, freeing up capital for further underwritings. *See* Regulatory Notice 22-24 (November 2022). As noted below, FINRA also recently sought comment on additional proposed amendments to its corporate financing rules to improve, simplify and clarify parts of those rules, as well as amendments to one of its private placement rules to expand available "accredited investor" exemptions. *See* Regulatory Notice 24-17 (December 2024). Moreover, FINRA recently implemented operational improvements regarding Regulation A+ and other exempt offerings. *See id*. and FINRA's Corporate Financing's Public Offering site for Regulation A+ Limited Review Pilot Program, and Filing Resources for Private Placements.

5 *See Regulatory Notice 24-17* (December 2024).

6 FINRA notes that its rules and programs are only one part of the broader framework of securities laws, rules and regulations that govern or affect capital formation—the Sarbanes-Oxley Act of 2002, the Jumpstart Our Business Startups Act of 2012 (JOBS Act), the Fair Access to Investment Research Act of 2017, SEC rules, state laws, and rules of other SROs (*e.g.,* securities exchanges). FINRA rules operate within this framework. For example, Title III of the JOBS Act established provisions that allow early-stage businesses to offer and sell securities through crowdfunding processes. The SEC subsequently adopted Regulation Crowdfunding to implement the crowdfunding provisions of the JOBS Act. FINRA adopted the FINRA Funding Portal Rules in support of Regulation Crowdfunding.

7 *See* SEA Section 19 and rules thereunder. After a proposed rule change is filed with the SEC, the proposed rule change generally is published for public comment in the Federal Register. Certain limited types of proposed rule changes take effect upon filing with the SEC. *See* SEA Section 19(b)(3) and SEA Rule 19b-4.

8 *See* Regulatory Notice 16-37 (October 2016).

9 CABs are not permitted to engage in other broker-dealer activities, such as accepting customers' trading orders, carrying customer accounts, handling customers' funds or securities, or engaging in proprietary trading or market-making. In January 2020, FINRA proposed amendments to the CAB rules that would permit CABs to engage in a broader range of activities and would address operational difficulties related to CAB associated persons' participation in private securities transactions. *See* *Regulatory Notice 20-04* (January 2020). FINRA staff anticipates filing with the SEC proposed amendments to the CAB rules that respond to previous comments.

10 *See* 15 USC 78o(b)(13).

11 *See* Exchange Act Release No. 90112 (October 7, 2020), 85 FR 64542 (October 13, 2020).

12 *See* CAB Rule 016(i) (definition of "institutional investor"). The term includes persons who meet the definition of "qualified purchaser" under the Investment Company Act of 1940. *See* 15 USC 80a-2(a)(51).

13 17 CFR §§ 242.500 - 242.505.

14 *See generally* SEC Litigation Release No. 18438; *see also* SEC v. Bear, Stearns & Co. Inc., et. al., No. 03 Civ. 2937 (S.D.N.Y Mar. 15, 2010).

15 *See* Sujata Rao, Denitza Tzekova and Isolde MacDonogh, *How Analyst Job Cuts on Wall Street are Reshaping Equity Research*, Bloomberg, January 8, 2025. Other factors identified in this article include the shift from public to private markets and the rise of index investing. *See also* Staff of the U.S. SEC, *Staff Report on the Issues Affecting the Provision of and Reliance Upon Investment Research Into Small Issuers*, February 18, 2022.

16 *Id.* We note that the UK has since adopted amendments that provide more flexibility in how firms may pay for research, including allowing for bundled payments for research and execution services in some instances, and the EU has eased the ban on bundling for some smaller issuers and is considering amendments to expand this option for other issuers.

17 *Staff Report on the Issues Affecting the Provision of and Reliance Upon Investment Research into Small Issuers, supra* note 15. The report defines "small issuers" to be issuers with equity securities registered with the SEC and listed on a national stock exchange with market capitalization of less than $250 million. The report noted that "[n]otwithstanding potential conflicts of interest related to research, quality research serves an important and beneficial function in the U.S. capital markets." The report cited research's role in increasing stock liquidity and providing an external governance mechanism on issuer management and further noted that research coverage can be especially beneficial to small issuers seeking to gain investors' attention.

18 *Id.* Specifically, the report identified the following additional factors that may impact the availability of research coverage of small issuers: the implementation of the MiFID II requirements for the payment of research; the rise of client commission arrangements (CCAs); a decline in the number of IPOs (as of 2020); falling equity commissions; fewer institutional investors investing in small issuers; a shift to passive investment strategies; insourcing of research by the buy-side; and increased reliance on and the rise of alternative data sources.

19 *See* IOSCO, Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges (March 2025); Jillian Grennan & Roni Michaely,

Fintechs and the Market for Financial Analysis, Journal of Financial and Quantitative Analysis, 56(6), 1877-1907 (2020) (suggesting that artificial intelligence based fintechs may serve as a substitute for traditional financial analysts).

20 Because some requirements under the FINRA rules are mandated by federal law, changes related to those provisions may require Congressional action or the SEC to use its exemptive authority under the Exchange Act.

21 *See id.*

22 *See Regulatory Notice 20-10* (March 2020).

23 *See supra* note 5.

24 *Id.*

25 *Id.*

26 The term "new issue" is defined as "any initial public offering of an equity security as defined in Section 3(a)(11) of the Exchange Act, made pursuant to a registration statement or offering circular," subject to a number of exceptions. *See* Rule 5130(i)(9). The term has the same meaning for purposes of Rule 5131.

27 Rule 5131(a)-(c).

28 Rule 5131(d)(1)-(3).

29 Rule 5131(d)(4).

30 *See* Exchange Act Release No. 89891 (September 16, 2020), 85 FR 68124 (October 27, 2020). *See also Regulatory Notice 17-14* (April 2017).

31 SEA Rule 15c2-11 defines a "qualified interdealer quotation system" as any "interdealer quotation system" that meets the definition of an "alternative trading system" under Rule 300(a) of Regulation ATS and operates pursuant to the exemption from the definition of an "exchange" under Regulation ATS. *See* 17 CFR 240.15c2-11(e)(6).

32 *See* 17 CFR 240.15c2-11(a)(2), (a)(1)(ii), (f)(7), (f)(2)(iii)(B) and (f)(3)(ii)(A)(1).

©2025. FINRA. All rights reserved. Regulatory Notices attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.