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Please direct your written comments to: Pamela Dyson, Director/Chief Information Officer, Securities and Exchange Commission, c/o Remi Pavlik-Simon, 100 F Street NE, Washington, DC 20549, or send an email to: [PRA\\_Mailbox@sec.gov](mailto:PRA_Mailbox@sec.gov).

Dated: May 24, 2018.

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-83332; File No. SR-FINRA-2018-021]

### Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to District Committee Structure and Governance

May 25, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) <sup>1</sup> and Rule 19b-4 thereunder, <sup>2</sup> notice is hereby given that on May 18, 2018, 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 constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act, <sup>3</sup> 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 amend the By-Laws of FINRA Regulation, Inc. (“FINRA Regulation By-Laws” or “By-Laws”), FINRA’s regulatory subsidiary, with regard to the District Committee structure and governance by, among other things, reorganizing the District Committees into Regional Committees that mirror the regions in which

FINRA’s districts are administratively grouped and managed by FINRA and revising candidate and member voting eligibility standards in a manner designed to result in committees that better reflect the industry and members within each region. The proposed rule change also makes conforming amendments to the FINRA Regulation By-Laws and FINRA rules to replace, where appropriate, District Committee references with Regional Committee references. <sup>4</sup>

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

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

In its filing with the Commission, 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 the Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

###### a. Background

In March 2017, FINRA issued a *Special Notice* <sup>5</sup> on engagement soliciting comment regarding its engagement programs, including FINRA’s District Committees generally. Several commenters to the *Special Notice* provided observations and suggestions regarding the District

Committees. <sup>6</sup> Some commenters commended the District Committees, <sup>7</sup> noting among other things, that they provide an opportunity to interact with FINRA senior staff, <sup>8</sup> serve as an important means of receiving constructive feedback, <sup>9</sup> and provide important service on disciplinary panels. <sup>10</sup> One commenter also stated that the committee meetings offer FINRA the opportunity to obtain more field-based feedback from financial advisors that directly serve investors and that the financial advisors benefit from open dialogue on timely, relevant topics. <sup>11</sup> Another commenter, however, questioned the committees’ usefulness, referring to the committee meetings as “one-way information session[s]” about soon-to-be-introduced rules. <sup>12</sup> In a different vein, one commenter suggested increasing committee “diversity” by including non-industry representatives. <sup>13</sup>

In addition to the *Special Notice* feedback, FINRA has noted the membership’s general lack of interest in District Committee service. The number of District Committee seat vacancies is the primary indicator of the membership’s declining interest in District Committee service. For the past six years, there has been an average of 29 vacant District Committee seats per year. Of this 29-seat average, 13 (approximately 45%) have been contested seats (two or more candidates), eight (approximately 28%) have been seats with only one candidate, and eight (approximately 28%) have been seats without any candidates, thus requiring FINRA to find an eligible person to appoint to the seat. <sup>14</sup>

<sup>6</sup> Richard Wallace (“Wallace”), Wells Fargo Advisors (“Wells Fargo”), National Society of Compliance Professionals (“NSCP”), Commonwealth Financial Network (“Commonwealth”), Richard K. Bryant (“Bryant”), Midwest Region Committees, Elmore Securities, LLC, Better Markets, Inc., Financial Services Institute (“FSI”) and Lara, May & Associates, LLC (“Lara, May”).

<sup>7</sup> Wallace, Commonwealth, NSCP, Wells Fargo, and FSI.

<sup>8</sup> Commonwealth.

<sup>9</sup> FSI.

<sup>10</sup> Wallace.

<sup>11</sup> Wells Fargo. The commenter also recommended adding two quarterly teleconference District Committee meetings in addition to the District Committees’ bi-annual in-person meetings.

<sup>12</sup> Bryant.

<sup>13</sup> Better Markets, Inc.

<sup>14</sup> See FINRA Regulation By-Laws, Article VIII, Section 8.8(b) (in the event there is no candidate designated for a vacant seat, FINRA’s Chief Executive Officer or his or her designee shall appoint a qualified individual to fill the vacancy for a full term). A number of reasons may contribute to individuals’ failure to pursue a District Committee seat, such as a lack of awareness by

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

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

<sup>3</sup> 17 CFR 240.19b-4(f)(6).

<sup>4</sup> The current FINRA rulebook consists of: (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from New York Stock Exchange LLC (“NYSE”) (“Incorporated NYSE Rules”) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the “Transitional Rulebook”). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (“Dual Members”). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see *Information Notice*, March 12, 2008 (Rulebook Consolidation Process).

<sup>5</sup> *Special Notice—Engagement Initiative* (March 21, 2017), available at <http://www.finra.org/industry/special-notice-032117>. The comment period closed on June 19, 2017. FINRA received 46 comment letters in response to the *Special Notice*.

## b. Proposed Rule Change

FINRA is proposing to amend the FINRA Regulation By-Laws to reorganize the District Committees as Regional Committees and to modify the committees' size, structure, and governance to respond to *Special Notice* feedback and address decreasing interest in District Committee service.

### Reorganizing District Committees as Regional Committees

The By-Laws require the FINRA Regulation Board of Directors ("FINRA Regulation Board")<sup>15</sup> to establish districts to assist with the administration of its affairs and provide that the FINRA Regulation Board may organize the districts into regions to promote efficiency and sound administration.<sup>16</sup> The By-Laws further provide that the FINRA Regulation Board may make changes from time to time in the number or boundaries of the districts or regions as it deems necessary or appropriate.<sup>17</sup> The FINRA Regulation Board has established 11 districts, overseen by FINRA District Offices, and has organized them into five regions:

- West (Districts 1 (San Francisco), 2 (Los Angeles) and 3 (Denver));
- Midwest (Districts 4 (Kansas City) and 8 (Chicago));
- South (Districts 5 (New Orleans), 6 (Dallas) and 7 (Atlanta and Boca Raton));
- North (Districts 9 (Philadelphia and New Jersey) and 11 (Boston)); and
- New York (District 10 (Long Island and New York)).<sup>18</sup>

Pursuant to the By-Laws, each district elects a District Committee.<sup>19</sup> FINRA currently manages the 11 District Committees as region-wide committees based on the administrative groupings outlined above, including having them meet bi-annually on a regional basis.<sup>20</sup>

some members of the opportunity and benefits of serving on a District Committee, a perceived lack of time to devote to the position or an individual's belief that he or she lacks sufficient industry experience to carry out a District Committee member's responsibilities. In addition, based on the *Special Notice* commenters' feedback outlined above, some people may not consider the District Committees to be useful or performing a meaningful role.

<sup>15</sup> FINRA Regulation, Inc. ("FINRA Regulation") is a subsidiary of FINRA that operates according to the Plan of Allocation and Delegation of Functions by FINRA to FINRA Regulation, Inc.

<sup>16</sup> See FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts and Regions).

<sup>17</sup> See *supra* note 16.

<sup>18</sup> See Schedule A to FINRA Regulation By-Laws and <http://www.finra.org/industry/finra-district-offices>.

<sup>19</sup> See FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

<sup>20</sup> See Securities Exchange Act Release No. 64363 (April 28, 2011), 76 FR 25397 (May 4, 2011) (Order

FINRA proposes to formally restructure the District Committees as Regional Committees. The proposed change will align the committee structure with FINRA's practice of managing the District Committees as region-wide committees.

### Regional Committee Composition and Size

FINRA proposes amending Section 8.2(a) of the FINRA Regulation By-Laws to require that each Regional Committee have six elected members from each district within that committee's region. Regional Committees representing three districts (*i.e.*, the South and West) will have 18 members, and Regional Committees representing two districts (*i.e.*, Midwest, North, and New York) will have 12 members. Currently, District Committees are generally composed of seven to 14 elected members, with each committee reflecting a configuration of three small, one mid-size and three large firm representatives.<sup>21</sup> The three-one-three composition is intended to align District Committee representation more closely with the industry representation on the FINRA Board.<sup>22</sup> However, that configuration does not necessarily reflect the industry composition within the regions as each region differs regarding firm number, size and business lines. For instance, while the vast majority of branch offices within each region are large firm branch offices, most of the firms headquartered in each region are small firms.<sup>23</sup> In addition,

Approving File No. SR-FINRA-2011-011 ("2011 Rule Filing Approval Order") (amending the By-Laws to, among other things, codify the practice of having the District Committees meet on a regional basis).

<sup>21</sup> See FINRA Regulation By-Laws, Article VIII, Section 8.2(a); see also FINRA Regulation By-Laws, Article I, paragraph (jj) (definition of "Small Firm"), FINRA Regulation By-Laws, Article I, paragraph (aa) (definition of "Mid-Size Firm"), and FINRA Regulation By-Laws, Article I, paragraph (y) (definition of "Large Firm").

<sup>22</sup> See *supra* note 20 (2011 Rule Filing Approval Order amending the FINRA Regulation By-Laws to, among other things, adjust the size and composition of the District Committees to require three-sevenths of the District Committee members to be associated with Small Firms (up to 150 registered persons), one-seventh with Mid-Size Firms (151 to 499 registered persons), and three-sevenths with Large Firms (500 or more registered persons), thereby aligning District Committee representation more closely with the industry representation on the FINRA Board).

<sup>23</sup> Based on data from the Central Registration Depository ("Web CRD"®), the West Region has 31,075 large-firm, 2,198 mid-size-firm, and 2,292 small-firm branch offices and 24 large firms, 24 mid-size firms, and 592 small firms headquartered in the region. The Midwest Region has 34,661 large-firm, 3,071 mid-size-firm, and 2,269 small-firm branch offices and 48 large firms, 50 mid-size firms, and 486 small firms headquartered in the region. The South Region has 36,290 large-firm, 2,680 mid-

when vacancies arise, the three-one-three District Committee configuration can make it more challenging to find eligible individuals within the districts who can be appointed to serve as committee members. Although large firms have many branches per district, FINRA staff has found it more difficult to find large-firm individuals to serve in districts where the firm is not headquartered. Conversely, FINRA staff has found that small-firm individuals are interested in committee service, but otherwise eligible individuals cannot be appointed if the prescribed small-firm committee positions are already filled. Thus, FINRA is not proposing to retain the three-one-three configuration.

The proposed amendments would reduce the number of committee members in the West and South regions from 21 to 18 and in the Midwest, North, and New York regions from 14 to 12. This size recalibration is intended to align the number of committee seats with the declining membership interest in committee service while still maintaining adequate district-level representation on the Regional Committees.<sup>24</sup>

### Regional Committee Member Eligibility and Member Voting Standards

FINRA also proposes amending FINRA Regulation By-Laws Section 8.2(a) to require that each Regional Committee member be associated with a FINRA member eligible to vote in the district-level elections and work for a FINRA member headquartered within the district the member will be representing on the committee. For purposes of the provision, a firm is headquartered where it designates its main address on the firm's Form BD. A firm can only have one main address on its Form BD, and FINRA's member firms are assigned to one of the 11 districts outlined above based on the location of their main office.

The proposed eligibility requirement differs from the current requirement that

size-firm, and 2,560 small-firm branch offices and 26 large firms, 33 mid-size firms, and 606 small firms headquartered in the region. The North Region has 28,663 large-firm, 1,899 mid-size-firm, and 2,392 small-firm branch offices and 39 large firms, 47 mid-size firms, and 726 small firms headquartered in the region. The New York Region has 4,022 large-firm, 463 mid-size-firm, and 1,590 small-firm branch offices and 40 large firms, 42 mid-size firms, and 936 small firms headquartered in the region.

<sup>24</sup> The proposed amendments to Section 8.2(a) retain the current committee size parameters that a committee consist of no fewer than five and no more than 20 members, unless otherwise provided by resolution of the FINRA Regulation Board and the provision that any reduction in the authorized number of such members shall not shorten any existing member's term. See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

District Committee members must be associated with a FINRA member firm eligible to vote in the district and work primarily from the member's principal office or a branch office that is located within the district where the member would serve on a District Committee.<sup>25</sup> FINRA believes that requiring committee member candidates to work for a firm that is headquartered in the district being represented rather than working from a firm's office in a particular district will result in committee member candidates that better reflect the type of firms within the respective regions, while ensuring that all districts have adequate representation within their respective Regional Committees. Committee member candidates from firms headquartered in a district also often bring regional and product expertise pertinent to that area.

FINRA proposes retaining the requirement that a committee member be registered in the capacity of a branch manager or principal or denoted as a corporate officer of the FINRA member.<sup>26</sup> This requirement is designed to ensure that committee members have requisite experience for purposes of participating in meetings.<sup>27</sup>

In addition, the proposed amendments retain district-level elections for Regional Committee members. As noted above, each district within its respective region will elect six Regional Committee members.<sup>28</sup> Each firm headquartered in the district shall be eligible to cast one vote for each position to be filled on a district's election ballot with the candidate receiving the largest number of votes cast by FINRA members eligible to vote in the district filling the vacant seat.<sup>29</sup> The proposed amendments do not retain the current requirement that member firms are only eligible to vote for committee members based on the applicable classification of the firm with which the committee member candidates are associated (e.g., only large firms are currently eligible to vote for one of the three large-firm committee member candidates).<sup>30</sup> Also, as noted previously, firms with a branch office located in the district will no longer be

eligible to vote in the district-level elections (unless a firm with a branch office in a particular district is also headquartered in that district). However, the proposed change will expand the voting opportunities for eligible member firms headquartered within a district by providing them the opportunity to cast a vote for every open seat rather than requiring that each firm vote only for seats representing that firm's size classification (small, mid-size or large). In addition, as with the other proposed composition and eligibility changes, FINRA believes that the revised voting eligibility requirements and election process will reduce potential impediments that could hinder Regional Committee composition from reflecting the industry within that region. FINRA intends to monitor Regional Committee composition and will consider other changes, as appropriate, if the proposed changes do not achieve the intended goal. The proposed amendments retain the direct candidate self-nomination and vacancy appointment process currently used for District Committee elections.<sup>31</sup>

As a transitional measure, and to ensure that the Regional Committees begin with a full complement of members, upon the proposed rule change becoming effective, FINRA would appoint all current District Committee members to serve on the Regional Committees. As a result, the Regional Committee members initially would include: (1) Any current District Committee members from within each region who meet the proposed eligibility requirement that the member be associated with a firm headquartered in the district the member is representing; and (2) the six current District Committee members who do not meet the proposed eligibility requirement that they be associated with a member firm headquartered within the district they are representing. This transitional measure will allow all current committee members to serve their full terms, consistent with the By-Laws,<sup>32</sup> and prevent them from being disenfranchised as a result of the proposed rule change.<sup>33</sup> If the number of District Committee members is insufficient to fulfill all the Regional Committee seats, FINRA will appoint

eligible individuals who are willing to serve on the Regional Committees.<sup>34</sup>

The initial 12 or 18 members for each Regional Committee would be appointed for rolling terms, with four or six members appointed for three years, four or six members appointed for two years, and four or six members appointed for one year. As noted previously, the majority of the initial Regional Committee members will be current District Committee members. FINRA intends to appoint the District Committee members for terms concurrent with the expiration of their current terms. Thus, the District Committee members elected or appointed in 2017 for full terms will serve three-year terms, the District Committee members elected or appointed in 2016 for full terms will serve two-year terms, and the District Committee members elected or appointed in 2015 for full terms will serve one-year terms. The purpose of the rolling terms is to preserve the current practice described below of providing that one-third of the committees' positions will be available for election each year.

#### Regional Committee Term of Office and Meeting Location and Frequency

The proposed amendments retain for Regional Committee members the District Committees' three-year "full term" limit.<sup>35</sup> Also, consistent with the District Committees' term of office provisions, the proposed rule change does not impose a limit on the number of total terms that may be served, with the exception that a committee member may serve no more than two full terms consecutively.<sup>36</sup> The proposed rule change differs from the current provision that District Committee members may not serve two consecutive full terms. The proposed change is based, in part, on a *Special Notice* commenter's suggestion that FINRA eliminate the prohibition against District Committee members serving two consecutive full terms.<sup>37</sup> In

<sup>25</sup> See FINRA Regulation By-Laws, Article VIII, Section 8.2(a)(1)–(2).

<sup>26</sup> See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a)(1).

<sup>27</sup> See Securities Exchange Act Release No. 64002 (March 2, 2011), 76 FR 12390 (March 7, 2011) (Notice of Filing of File No. SR-FINRA-2011-011).

<sup>28</sup> See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

<sup>29</sup> See proposed FINRA Regulation By-Laws, Article VIII, Section 8.9 and Section 8.17.

<sup>30</sup> See FINRA Regulation By-Laws, Article VIII, Section 8.9 and Section 8.17.

<sup>31</sup> See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8.

<sup>32</sup> See FINRA Regulation By-Laws, Article VIII, Section 8.2(a) (providing that no decrease in the authorized number of members of a District Committee shall shorten the term of office of any member).

<sup>33</sup> Four of the committee members have one year remaining on their terms, while the other two committee members have two years remaining on their terms.

<sup>34</sup> FINRA would appoint the initial Regional Committee members using its power to appoint qualified persons to fill Regional Committee vacancies where there is no designated candidate. See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8(b).

<sup>35</sup> See proposed FINRA Regulation By-Laws, Article VIII, Section 8.3.

<sup>36</sup> See *supra* note 35. The proposed rule change would not prohibit someone appointed or elected to the committee to serve a partial term from serving two consecutive terms in addition to the partial term.

<sup>37</sup> Commonwealth. One *Special Notice* commenter suggested limiting District Committee members to one term. See *Elmcore Securities, LLC*. (noting also that she did not have enough input regarding the District Committees' activities to

addition, as noted above, the proposed amendments continue the current District Committee practice of staggering the three-year committee membership terms to provide that one-third of each Regional Committee's positions be available for election each year.

FINRA also proposes that the Regional Committees retain the current requirement to meet on a regional basis.<sup>38</sup> In addition, the Regional Committees will meet in-person two times a year, consistent with the general practice for District Committee meeting frequency.

#### Regional Committee Regulatory Role and Purpose

FINRA proposes that the Regional Committees assume the District Committees' regulatory roles outlined in the FINRA Regulation By-Laws to:

- Serve as panelists in disciplinary proceedings in accordance with FINRA rules;
- consider and recommend policies and rule changes to the Board; and
- endeavor to educate FINRA members and others as to the objects, purposes and work of FINRA and FINRA Regulation.<sup>39</sup>

In addition, FINRA intends to have Regional Committee members be responsible for communicating high-level information regarding meeting discussions to their constituents. This responsibility would be consistent with the role noted above that the Regional Committees educate FINRA members and others regarding FINRA and its work. The added responsibility also is consistent with a *Special Notice* commenter's suggestion that District Committees be used to greater effect by helping educate FINRA about district developments.<sup>40</sup>

#### Regional Committee Administration and Procedures

The staff proposes retaining without significant changes (other than

answer the *Special Notice* question asking about the District Committees' usefulness). Another commenter approved the current prohibition against serving two consecutive full terms. *See* Midwest Region Committees; *see also* Lara, May (indicating, without further detail, support for the current three-year term and term limits). Both commenters supported their suggestions as a means of providing more opportunities for interested individuals to become committee members and provide input. However, as noted above, there has been a general lack of interest in committee service. In addition, FINRA does not have any evidence supporting the supposition that interest in committee service will increase by imposing term limitations.

<sup>38</sup> *See* proposed FINRA Regulation By-Laws, Article VIII, Section 8.5.

<sup>39</sup> *See* proposed FINRA Regulation By-Laws, Article VIII, Section 8.2(a).

<sup>40</sup> NSCP.

conforming changes to reflect the proposed elimination of firm-size classifications and the committee member candidate and member voting eligibility criteria that a firm have a principal or branch office within a district) the administrative and procedural provisions relating to meetings, vacancies, committee support, expenses and compensation, self-nomination, ballots, candidate solicitation, voter qualification list, extensions of time, and definitions.<sup>41</sup>

#### Proposed Conforming Amendments

FINRA is proposing to amend Article I (Definitions) of the FINRA Regulation By-Laws to delete the term "District Committee" and add the term "Regional Committee"<sup>42</sup> and make conforming amendments to the FINRA Regulation By-Laws to replace District Committee references with Regional Committee references. FINRA also proposes amending the FINRA 9000 Rule Series (Code of Procedure) to replace, where appropriate, the term "District Committee" with "Regional Committee." In addition, FINRA proposes amending FINRA Rule 9120 (Definitions) to clarify that the "District Committee" definition is referring to the District Committees that will be replaced by the proposed Regional Committees, replace the term "Primary District Committee" with "Primary Regional Committee," and add the term "Regional Committee."<sup>43</sup>

FINRA also is proposing amendments to FINRA Rule 9231 (Appointment by the Chief Hearing Officer of Hearing Panel or Extended Hearing Panel or Replacement Hearing Officer) and FINRA Rule 9820 (Appointment of Hearing Officer and Hearing Panel) to clarify that former District Committee members and current and former

<sup>41</sup> *See generally* proposed FINRA Regulation By-Laws, Article VIII, Sections 8.2(b)–(d), 8.4 (Filling of Vacancies on Regional Committees), 8.5 (Meetings of Regional Committees), 8.6 (Expenses of Regional Committees), 8.7 (Solicitation of Candidates and Secretary's Notice to FINRA Members), 8.8 (Self-Nomination of Candidates and Vacancy Appointments), 8.10 (Administrative Support), 8.11 (Ballots), 8.12 (Vote Qualification List), 8.13 (Ballots Returned as Undelivered), 8.14 (General Procedures for Qualification and Accounting of Ballots), 8.15 (Ballots Set Aside), 8.16 (Invalid Ballots), 8.17 (Election Results), 8.18 (Extensions of Time and Additional Procedures), 8.19 (Definitions) and 9.1 (Compensation of Board, Council, and Committee Members).

<sup>42</sup> *See* proposed FINRA Regulation By-Laws, Article I(hh) (definition of "Regional Committee").

<sup>43</sup> *See* proposed amendments to FINRA Rule 9120(g) (adding the term "former" to the District Committee definition) and FINRA Rule 9120(y) (replacing the term "District" with "Regional" in the "Primary District Committee" definition) and proposed FINRA Rule 9120(z) ("Regional Committee").

Regional Committee members are eligible to serve as disciplinary hearing panelists.<sup>44</sup> FINRA also is exploring options to enlarge the pool of panelists and better educate the Regional Committees about the critical function of serving on hearing panels in FINRA disciplinary proceedings.

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

#### 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(4) of the Act,<sup>45</sup> which requires, among other things, that FINRA rules must be designed to assure a fair representation of its members in the selection of its directors and administration of its affairs, and with Section 15A(b)(6) of the Act,<sup>46</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change will result in a more effective Regional Committee structure that aligns with how FINRA administratively groups and manages the current District Committees. The proposed rule change also will continue to provide members with the opportunity to elect and serve as committee members. More specifically, the proposed rule change will expand the voting opportunities for members headquartered within a district by providing them the opportunity to cast a vote for every open seat rather than requiring each member to vote only for seats representing that member's size classification (small, mid-size or large). However, pursuant to the proposed rule change, members with a branch office located in the district will no longer be eligible to vote in the district-level elections (unless a firm with a branch office in a particular district is also headquartered in that district). As further detailed above, the representation of Regional Committee members will more closely reflect the membership and industry configuration within the respective regions.

<sup>44</sup> The proposed rule change also updates the cross-reference to FINRA Rule 9231 in FINRA Rule 9232(d) (Criteria for Appointment of a Panelist).

<sup>45</sup> 15 U.S.C. 78o–3(b)(4).

<sup>46</sup> 15 U.S.C. 78o–3(b)(6).

FINRA further believes that the proposed rule change is consistent with Section 15A(b)(8) of the Act,<sup>47</sup> which requires, among other things, that FINRA rules must be designed to provide a fair procedure for the disciplining of members and persons associated with members. The proposed rule change maintains the necessary eligibility requirements to ensure that the pool of potential panelists is composed of qualified members. In addition, by reducing the number of committee members in the West and South Regions from 21 to 18 and in the Midwest, North, and New York Regions from 14 to 12, the proposed rule change only reduces by 12 the maximum number of eligible panelists who would be current committee members. FINRA is exploring options to enlarge the pool of panelists and better educate the Regional Committees about the critical function of serving on hearing panels in FINRA disciplinary proceedings.

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

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will not impose any direct costs or additional regulatory obligations on members. FINRA will continue its practice of covering committee meeting costs and expenses committee members incur by attending meetings in person.

The proposed rule change will reduce representation within each Regional Committee from seven seats to six seats per district. However, FINRA does not believe that it reduces overall opportunities for members to interact with FINRA staff or serve on committees. As noted in *Special Notice*, FINRA has over 30 advisory and ad hoc committees that include member representatives who routinely provide input and feedback on regulatory initiatives, proposed rule changes, and emerging regulatory issues. FINRA regularly engages with the industry through its public comment process on proposed rule changes. In addition, FINRA conducts member outreach through a number of regularly scheduled events, including member meetings, round tables, district compliance meetings, and conferences.

#### *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 on the proposed rule change. As noted above, in March 2017, FINRA issued a *Special Notice* on engagement, which solicited comment regarding FINRA's engagement programs, including the District Committees generally, and, in response, several commenters discussed the District Committees.<sup>48</sup>

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>49</sup> and Rule 19b-4(f)(6) thereunder.<sup>50</sup>

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

### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

#### *Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2018-021 on the subject line.

#### *Paper Comments*

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

<sup>48</sup> See *supra* notes 5 and 6.

<sup>49</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>50</sup> 17 CFR 240.19b-4(f)(6).

All submissions should refer to File Number SR-FINRA-2018-021. This file number should be included on the subject line if email 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 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2018-021, and should be submitted on or before June 21, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>51</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

### **Submission for OMB Review; Comment Request**

*Upon Written Request Copies Available From:* U.S. Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE, Washington, DC 20549-2736.

#### *Extension:*

OWMI Contract Standard for Contractor Workforce Inclusion; SEC File No.270-666, OMB Control No. 3235-0725

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), the Securities

<sup>51</sup> 17 CFR 200.30-3(a)(12).

<sup>47</sup> 15 U.S.C. 78o-3(b)(8).