

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **FINRA Issues Guidance on Member Firms' Supervisory Obligations When Participating in Investment-Related Activities With Municipal Clients.**

On August 16, the Financial Industry Regulatory Authority (FINRA) issued Regulatory Notice 19-28 (Notice) reminding member firms of their supervisory obligations under FINRA Rules 3110 (Supervision) and 3120 (Supervisory Control System) if they 1) hold or transact in customer accounts owned by municipal entities or obligated persons (i.e., municipal clients), as defined in Section 15B of the Securities Exchange Act of 1934, as amended; and 2) participate in investment-related activities with municipal clients (e.g., recommending or selling non-municipal securities products to such municipal clients).

The Notice advises that member firms with municipal clients should evaluate whether such firms must register with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board (MSRB) as "municipal advisors" or if they can rely upon an applicable exclusion from registration and/or a registration exemption.

The Notice also reminds member firms engaging in investment-related activities with municipal clients that they must establish, maintain and enforce supervisory systems and controls pursuant to FINRA Rules 3110 (Supervision) and 3120 (Supervisory Control System) that are reasonably designed to prevent and detect unregistered municipal advisory activity and non-compliance with its attendant obligations. In establishing and maintaining a supervisory system and controls that account for the municipal advisor registration requirements, member firms are advised to consider the unique risks of their business activities with municipal clients.

The Notice does not create any new requirements or expectations. Rather, the Notice is intended to assist member firms in complying with their existing obligations under FINRA, SEC and MSRB rules.

The Notice is available [here](#).

by Susan Light, Michael T. Foley and Stanley V. Polit

August 30, 2019

**Katten Muchin Rosenman LLP**