Table of Contents

Volume 23

CHAPTER 1. BROKER-DEALERS—EARLY HISTORY

§ 1:1 Introduction
§ 1:2 The European experience
§ 1:3 The American beginning
§ 1:4 The commodity futures markets are born
§ 1:5 The Civil War and the ensuing age of speculation—War bonds
§ 1:6 —Puts and calls and other devices
§ 1:7 —The New York stock exchanges
§ 1:8 —After the war
§ 1:9 —Speculation in the futures markets
§ 1:10 —The Robber Barons
§ 1:11 —"Difference" trading
§ 1:12 —Bucket shops
§ 1:13 —Commodity price manipulations
§ 1:14 —Panic in the securities markets
§ 1:15 —The century closes
§ 1:16 The century turns and the investigations begin
§ 1:17 World War I and finance
§ 1:18 The Grain Futures Act
§ 1:19 The Roaring Twenties
§ 1:20 The Great Crash and its aftermath

CHAPTER 2. BROKER-DEALERS—THE REGULATORY ERA

§ 2:1 Broker-dealer regulation before the "New Deal"
§ 2:2 The New Deal legislation
§ 2:3 —The Glass-Steagall Act
§ 2:4 —The Securities Act of 1933
§ 2:5 —The Securities Exchange Act of 1934
§ 2:6 —The Public Utility Holding Company Act of 1935
§ 2:7 —The Trust Indenture Act of 1939
§ 2:8 —The Investment Company Act of 1940
§ 2:9 —The Investment Advisors Act of 1940
§ 2:10 The Commodity Exchange Act is adopted
§ 2:11 Federal regulation begins—The securities markets
§ 2:12 —The commodities markets
§ 2:13 The fabulous fifties
§ 2:14 The Sixties—The "go-go" years
§ 2:15 The Seventies—A new era begins—The early 1970s
§ 2:16 —The Securities Exchange Act Amendments of 1975
§ 2:17 —Increased competition and pressure on brokerage firms
§ 2:18 —The commodities markets in the 1970s
§ 2:19 The greedy eighties
§ 2:20 —Brokerage and banking—The line continues to blur

§ 2:21 —The commodities markets—Further growth
§ 2:22 —The explosion of derivatives and jurisdictional conflicts
§ 2:23 —The 1987 crash and ensuing regulatory concerns
§ 2:24 —Aftermath of the 1987 crash
§ 2:25 —Government securities—The demand for increased regulation
§ 2:26 —Over-the-counter derivative investments
§ 2:27 —More problems for the brokerage industry
§ 2:28 —Insider trading scandals
§ 2:29 —The buy-out boom and the demise of junk bonds
§ 2:30 —More changes in the brokerage industry
§ 2:31 —Internationalization of the financial markets
§ 2:32 —Scandal in the pits
§ 2:33 The nineties begin—Trends of the early 1990s
§ 2:34 —Penny stock scandals and regulatory reforms
§ 2:35 —Commodities markets in the 1990s
§ 2:36 —More problems for the government securities industry
§ 2:37 —Catching up with the technology
§ 2:38 —International reforms
§ 2:39 Continued growth in the brokerage industry
§ 2:40 The Internet enters the market
§ 2:41 As the century closes
§ 2:42 Broker-dealer "lite" regulation
§ 2:43 CFTC restructured regulatory system
§ 2:44 Electronic trading
§ 2:45 Repeal of Glass-Steagall

CHAPTER 2A. BROKER-DEALERS—THE TWENTY FIRST CENTURY BEGINS

§ 2A:1 Market competition
§ 2A:2 September 11
§ 2A:3 Enron Corp. and financial scandals
§ 2A:4 Market adjustments
§ 2A:5 New York Stock Exchange problems
§ 2A:6 Derivative markets
§ 2A:7 Mutual fund scandals
§ 2A:8 Market recovery
§ 2A:9 Market changes
§ 2A:10 Regulatory consolidation
§ 2A:11 The credit crunch and subprime crisis
§ 2A:12 Lehman Brothers
§ 2A:13 More financial firms fail
§ 2A:14 The crisis in the market
§ 2A:15 Madoff and other frauds
§ 2A:16 Subprime lending growth
§ 2A:17 The AIG debacle
§ 2A:18 Government bailout programs
§ 2A:19 The Dodd-Frank Act of 2010
§ 2A:20 The Financial Crisis Inquiry Commission
§ 2A:21 Market events

CHAPTER 3. BROKER-DEALER REGISTRATION REQUIREMENTS

§ 3:1 The registration requirement
§ 3:2 Judicial decisions on broker-dealer registration
§ 3:3 Disciplinary actions involving registration
§ 3:4 SEC no-action positions on registration
§ 3:4.50 Electronic trading platforms
§ 3:5 Referral and finders fees
§ 3:6 Associated person registration
§ 3:7 Registration exemptions—Banks
§ 3:7.50 Other registration issues
§ 3:8 Foreign broker-dealers
§ 3:8.50 Investment adviser registration
§ 3:9 Broker-dealer lite registration
§ 3:10 Commodity futures and derivatives
§ 3:11 Securities futures
§ 3:11.30 Forex registration requirements
§ 3:11.70 Swaps registration after Dodd-Frank
§ 3:12 FINRA testing and background checks
§ 3:13 NFA registration and audits

CHAPTER 4. NET CAPITAL REQUIREMENTS

§ 4:1 Introduction
§ 4:2 History and background
§ 4:3 State net capital requirements
§ 4:4 SEC net capital requirements under the "basic" method and exemptions from the net capital rule
§ 4:5 The alternative net capital requirement
§ 4:6 Aggregate indebtedness
§ 4:7 Net capital defined—The basics of the computation
§ 4:8 —Tax claims and liabilities
§ 4:9 —Customer debts
§ 4:10 —Other adjustments
§ 4:11 Net capital defined collateralized liabilities
§ 4:12 Net capital defined receivables to be excluded
§ 4:13 Net capital defined deficits
§ 4:14 Net capital defined—Loaned securities
§ 4:15 —Free shipments
§ 4:16 —Includible receivables
§ 4:17 —Repos and reverse repos
§ 4:18 —Borrowed securities
§ 4:19 —Proprietary positions
§ 4:20 —Parking
§ 4:21 —Government securities
§ 4:22 —Municipal securities
§ 4:22.50 The role of the rating agencies in net capital computations
§ 4:23 Commercial paper
§ 4:24 Net capital defined—Debt securities
§ 4:25 —Undue concentration charges
§ 4:26 —Illiquid securities
§ 4:27 —Contractual commitments

§ 4:28 —"Fails-to-deliver" deductions
§ 4:29 —Options specialists
§ 4:29.50 Swaps
§ 4:30 Net capital defined—Additional computation problems
§ 4:31 Appendices A and B
§ 4:32 —Special rules for options—Appendix A
§ 4:33 —Special rules for certain commodities transactions—Appendix B
§ 4:34 Accounting for subsidiaries and affiliates—Appendix C
§ 4:35 —Joint back office arrangements
§ 4:36 Inclusion of subordinated indebtedness in certain cases—Appendix D
§ 4:37 Limitations on capital withdrawals and "early warning" notice requirements—Generally
§ 4:38 —SEC Rules 17h-1t [17 C.F.R. § 240.17h-1t] and 17h-2t [17 C.F.R. § 240.17h-2t]
§ 4:39 —Early warning notices
§ 4:40 Enforcement—Case law under the net capital rule
§ 4:41 Net capital requirements imposed by the CFTC
§ 4:41.50 —CFTC risk-based net capital proposal
§ 4:42 —Risk based net capital requirements
§ 4:42.50 Consolidated supervised entities and risk based capital requirements
§ 4:42.60 Leverage ratios
§ 4:42.70 Prime brokers
§ 4:43 International net capital
§ 4:44 Capital requirements for swaps
§ 4:45 Capital requirements for retail foreign exchange dealers

CHAPTER 5. PROTECTION AND USE OF CUSTOMER FUNDS

§ 5:1 Introduction
§ 5:2 Customer free credit balances
§ 5:3 Rule 15c3-3 [17 C.F.R. § 240.15c3-3]—Background and purpose
§ 5:4 Possession and control requirements
§ 5:5 Reserve formula requirement
§ 5:6 Rule 15c3-3 [17 C.F.R. § 240.15c3-3] exemptions
§ 5:7 SEC hypothecation restrictions
§ 5:8 CFTC segregation requirements
§ 5:9 Rule 15c3-2 [17 C.F.R. § 240.15c3-2] and short sales
§ 5:10 Single stock futures
§ 5:11 Swaps

CHAPTER 6. RECORDKEEPING AND FINANCIAL REPORTING REQUIREMENTS

§ 6:1 Introduction
§ 6:2 Rule 17a-3 [17 C.F.R. § 240.17a-3]—The SEC's principal recordkeeping provision
§ 6:3 Rule 17a-4 [17 C.F.R. § 240.17a-4]—Retention and inspection requirements for broker-dealer records
§ 6:4 Rule 17a-5 [17 C.F.R. § 240.17a-5]—FOCUS and other reports
§ 6:5 —The FOCUS report
§ 6:6 —The annual report of broker-dealers
§ 6:7 —Financial reports to customers

§ 6:8 —Qualification and standards for accountants preparing broker-dealer financial reports
§ 6:9 —Audit standards
§ 6:10 —Enforcement proceedings under Rule 17a-5 [17 C.F.R. § 240.17a-5]
§ 6:11 Rule 17a-13 [17 C.F.R. § 240.17a-13]—Quarterly security counts
§ 6:12 Automated trading systems
§ 6:13 Rule 10b-10 [17 C.F.R. § 240.10b-10]—The confirmation requirement
§ 6:14 —Soft dollar practices
§ 6:15 —Wrap account reports
§ 6:16 Lost and stolen securities program and fingerprinting requirements—SEC Rule 17f-1 [17 C.F.R. § 240.17f-1]—Lost and stolen securities program
§ 6:17 —SEC Rule 17f-2—The fingerprinting requirement
§ 6:18 Large trader reporting systems
§ 6:19 CFTC financial reporting requirements
§ 6:20 CFTC recordkeeping requirements
§ 6:21 CFTC month-end statements and confirmations
§ 6:22 CFTC Rule 1.31 [17 C.F.R. § 1.31]—Books and recordkeeping requirements and inspection authority
§ 6:23 Daily computation of segregated funds and records of investments and the monthly "Point balance"
§ 6:24 CFTC notices for failure to meet net capital requirements
§ 6:25 Privacy Requirements
§ 6:26 Stock futures
§ 6:27 Swap recordkeeping requirements

Volume 23A

CHAPTER 7. MONEY LAUNDERING

§ 7:1 Background
§ 7:2 Money laundering and related legislation
§ 7:3 Money laundering—Application to financial institutions
§ 7:4 —Cases
§ 7:5 —International
§ 7:6 Embargo and monetary controls
§ 7:7 Identity theft and cyber security controls

CHAPTER 8. MARGIN REQUIREMENTS AND CREDIT REGULATION

§ 8:1 Securities margin requirements—Background and history—Early margin controls
§ 8:2 — —The Securities Exchange Act of 1934 and margin controls
§ 8:3 — —Subsequent events in the securities markets
§ 8:4 Margin requirements under the federal securities laws
§ 8:5 —Application of Regulation T [12 C.F.R. Part 220]
§ 8:6 —Extension requests under Regulation T [12 C.F.R. Part 220] and exchange maintenance margin requirements
§ 8:7 —Rule 10b-16 [17 C.F.R. § 240.10b-16] disclosure requirements
§ 8:8 —Section 11(d)(1) of the Securities Exchange Act
§ 8:9 —Enforcement issues
§ 8:10 —Joint back office arrangements

§ 8:11 —Day trading
§ 8:12 Rule 15c2-5 [17 C.F.R. § 240.15c2-5]
§ 8:13 Private rights of action for violations of security margin requirements
§ 8:14 Commodity futures margins—Introduction
§ 8:15 Futures margins—History and background
§ 8:16 Changing nature of the futures markets and reexamination of the margin issue
§ 8:17 —Federal Reserve Board reviews the need for margin controls
§ 8:18 —The stock market crash of 1987
§ 8:19 Securities and commodity options margins and cross-margining issues—Securities options
§ 8:20 —Commodity options margins
§ 8:21 —Cross-margining issues
§ 8:22 —Over-the-counter derivative dealers
§ 8:23 Claims involving commodity margins
§ 8:24 Stock futures margins
§ 8:25 Swap Margins

CHAPTER 9. BROKER-DEALER TRADING PRACTICES

§ 9:1 Broker-dealer market making activities
§ 9:2 —Best execution concerns
§ 9:3 —Rule 15c2-11 [17 C.F.R. § 240.15c2-11]
§ 9:4 Payments for order flow
§ 9:5 Manipulation and other prohibited activities
§ 9:6 Improper practices in handling customer orders
§ 9:7 Short sales
§ 9:7.50 Short sales and the subprime crisis
§ 9:8 Floor trading practices for securities
§ 9:9 Stabilizing activities
§ 9:10 —Underwriting background
§ 9:11 The trading practice rules
§ 9:12 Regulation M [17 C.F.R. Part 242]—The need for change
§ 9:13 —Regulation M [17 C.F.R. Part 242]
§ 9:14 —Application
§ 9:15 All or none offerings
§ 9:16 Hot issue and other distribution concerns
§ 9:16.50 Audit trail requirements
§ 9:17 Commodity futures trading practice restrictions
§ 9:17.50 Commodity manipulations
§ 9:17.70 Energy market manipulations
§ 9:17.80 Dodd-Frank
§ 9:18 Yield burning and pay-to-play practices
§ 9:19 Analyst's conflicts

CHAPTER 10. SALES PRACTICES

§ 10:1 Suitability in the securities industry
§ 10:2 SRO rules on suitability
§ 10:3 Applying the suitability rule
§ 10:4 Suitability requirements for institutional clients
§ 10:5 Suitability and electronic communications
§ 10:6 —Day trading suitability issues

§ 10:7 Suitability and the SEC
§ 10:8 Suitability requirements for penny stocks
§ 10:8.50 Suitability Requirements for Swaps
§ 10:9 Disciplinary actions in suitability cases
§ 10:10 Private rights of action
§ 10:11 Arbitration
§ 10:12 Suitability requirements under state law
§ 10:12.50 Insurance product suitability
§ 10:13 Reasonable basis in fact
§ 10:13.50 SEC Regulation Best Interest
§ 10:14 CFTC and suitability standards—Proposed rule
§ 10:15 CFTC decisions
§ 10:16 Judicial decisions on suitability under the Commodity Exchange Act
§ 10:17 Single stock futures
§ 10:18 State law commodity suitability clams
§ 10:19 NFA rule
§ 10:20 CFTC commodity option requirements
§ 10:21 CFTC and reasonable basis for recommendations
§ 10:21.50 Fiduciary and other duties
§ 10:21.70 Regulation "Best Interest"
§ 10:22 Selling and trading away
§ 10:23 Markups and markdowns
§ 10:24 Mutual fund breakpoints, switching and commissions
§ 10:24.50 Variable annuity switching
§ 10:24.55 Mutual fund and broker-dealer issues
§ 10:24.60 Late trading and market timing
§ 10:25 Churning
§ 10:25.50 Churning under the Commodity Exchange Act
§ 10:26 Unauthorized trading of securities
§ 10:26.50 Unauthorized trading under the Commodity Exchange Act
§ 10:27 Misrepresentations
§ 10:28 State law claims—Fraud, negligence and fiduciary duty
§ 10:29 Commodity futures claims involving fraud and breach of fiduciary duty
§ 10:30 RICO
§ 10:31 Wrap account requirements
§ 10:32 Ethical Practices
§ 10:32.40 Senior and Vulnerable Investor Protections
§ 10:32.50 Entertainment abuses
§ 10:33 Do Not Call Registry

CHAPTER 11. SUPERVISION REQUIREMENTS

§ 11:1 Duty to supervise—Introduction
§ 11:2 Supervision under federal securities laws—General considerations
§ 11:2.50 Compliance examinations
§ 11:3 SEC decisions interpreting the duty to supervise—Basis for the supervisory obligation
§ 11:4 —Supervisory personnel and the delegation of duty
§ 11:5 —Operation and procedure requirements for supervisors
§ 11:6 —Supervision of portfolio managers
§ 11:6.50 Supervising investment banking activities, analysts and mutual funds
§ 11:6.70 Risk management requirements and high frequency traders

§ 11:6.75 Cybersecurity supervision and Regulation S-P
§ 11:6.80 Investment advisers
§ 11:7 Obligations of securities broker-dealers: Compliance personnel and attorneys as supervisors
§ 11:8 Supervisory bars
§ 11:9 Judicial decisions interpreting the supervision obligations of securities broker-dealers
§ 11:10 Derivative liabilities of supervisors
§ 11:11 —Aiding and abetting
§ 11:11.50 Aiding and abetting under the Commodity Exchange Act
§ 11:12 Derivative liabilities of supervisors—Controlling person liability
§ 11:12.25 Controlling person liability under Commodity Exchange Act
§ 11:12.50 Derivative liabilities of supervisors—Respondeat superior
§ 11:13 CFTC supervisory requirement
§ 11:14 CFTC decisions on its supervisory requirements
§ 11:15 Judicial decisions interpreting the CFTC supervisory requirement—Generally
§ 11:16 —Private right of action
§ 11:17 Supervision of broker communications—Limitations on telemarketing practices
§ 11:17.10 Supervising communications with the public
§ 11:17.20 National Futures Association promotional material requirements
§ 11:17.30 Cases concerning review of sales material
§ 11:18 Supervision of broker communications—Electronic communication
§ 11:19 Lack of supervision of broker communications—Rogue traders
§ 11:20 —Rogue brokers
§ 11:20.50 Supervision of Electronic Trading
§ 11:21 Lack of supervision of broker communications—Independent contractors and remote offices
§ 11:21.50 —Hedge funds
§ 11:22 —Unregistered persons
§ 11:23 —Continuing education requirements
§ 11:24 General considerations on supervision—Negative effect of the strict liability standard
§ 11:25 —Supervisory duty under the reasonableness standard

CHAPTER 12. ARBITRATION OF BROKER-DEALER DISPUTES

§ 12:1 The enforceability of arbitration agreements in federal and state securities cases
§ 12:2 The Federal Arbitration Act: Policies favoring arbitration
§ 12:3 State laws affecting arbitration clauses
§ 12:4 Arbitrability of federal and state claims
§ 12:5 Res judicata and collateral estoppel
§ 12:6 Stay of proceedings
§ 12:7 Review of court orders compelling or denying arbitration or staying judicial proceedings
§ 12:8 Waiver of right to arbitrate
§ 12:9 Other factors affecting enforcement of pre-dispute arbitration agreements
§ 12:10 Judicial review of arbitration decisions
§ 12:11 No arbitration for class actions

§ 12:12 Arbitration of disputes involving municipal securities
§ 12:12.50 Insurance claims
§ 12:13 Arbitration of disputes between securities professionals
§ 12:14 Factors relating to enforceability of pre-dispute arbitration clauses
§ 12:14.50 Dodd-Frank provisions on pre-dispute arbitration clauses
§ 12:15 Who decides the issue of arbitrability?
§ 12:16 When are arbitration clauses in brokers' customer agreements contracts of adhesion?
§ 12:17 Use of rules of contract interpretation to determine arbitrability
§ 12:18 Claims of unenforceability based on alleged bias of arbitrators
§ 12:19 Claims of unenforceability based on fraud
§ 12:20 Effect of self regulatory organization rules on enforceability
§ 12:21 Arbitration of disputes involving broker-dealers-introduction; Required disclosures
§ 12:22 Arbitration of disputes involving broker-dealers: Arbitrable matters; Parallel proceedings; and limitations periods
§ 12:22.50 Discovery in arbitration proceedings
§ 12:23 The FINRA arbitration program
§ 12:24 Expungement of customer-dispute information
§ 12:25 *[Reserved]*
§ 12:26 *[Reserved]*
§ 12:27 *[Reserved]*
§ 12:28 *[Reserved]*
§ 12:29 Commodity Exchange Act Arbitration
§ 12:30 Attorney fees
§ 12:31 *[Reserved]*
§ 12:32 Punitive damages
§ 12:33 *[Reserved]*
§ 12:34 Prejudgment attachment

CHAPTER 13. CLEARING AND SETTLEMENT

§ 13:1 Introduction
§ 13:2 Legislative proposals
§ 13:3 Clearing agencies evolve
§ 13:4 Legislation is adopted
§ 13:5 The industry continues to advance
§ 13:6 Stock market crash of 1987
§ 13:7 SEC staff report
§ 13:8 Additional congressional review
§ 13:9 T + 3—A giant step forward in settlement
§ 13:9.50 Clearing fees
§ 13:10 Municipal securities
§ 13:11 —Government and other clearing agencies
§ 13:11.50 Swap Clearing Facilities
§ 13:12 Transfer agents
§ 13:13 —Street name securities and proxies
§ 13:14 Internal settlement and clearance
§ 13:15 Prime brokers
§ 13:16 Options clearing
§ 13:17 Contract markets
§ 13:18 Cross-market clearing and settlement
§ 13:19 OTC derivatives

§ 13:20 International settlement
§ 13:21 Litigation over clearing agency rules
§ 13:21.50 Covered clearing agency resilience and recovery planning
§ 13:22 Securities clearing firm liability
§ 13:23 Clearing firm liability in the futures industry
§ 13:24 Clearing house regulation in the futures industry
§ 13:25 Regulation of other payment and settlement systems
§ 13:26 Collateral management issues

CHAPTER 13A. STOCK AND COMMODITY EXCHANGE DATA FEES

§ 13A:1 Stock Markets Become Data Centers
§ 13A:2 Exchange Market Data is Deemed to be Proprietary
§ 13A:3 Historical Preferred Access to Market Data
§ 13A:4 Commodity Futures Exchange Floor Traders
§ 13A:5 National Market System Data Dissemination Requirements
§ 13A:6 NMS Data Sharing Requirements
§ 13A:7 SEC Market Data Rate Setting Efforts
§ 13A:8 Transaction Fees
§ 13A:9 Commodity Futures Markets
§ 13A:10 Securities Market Cases
§ 13A:11 Commodity Market Cases

CHAPTER 14. ELECTRONIC COMMUNICATION NETWORKS

§ 14:1 Background
§ 14:2 The growth of ECNs
§ 14:3 Automation arrives in the futures industry
§ 14:4 Automation arrives in the securities industry
§ 14:5 The ECNs arrive
§ 14:6 Nasdaq and NYSE responses
§ 14:7 Regulating the ECNs—Securities industry
§ 14:8 Regulating ECNs—Derivatives industry
§ 14:8.50 Crypto Assets
§ 14:9 Regulatory challenges—Derivative markets
§ 14:10 —Securities markets
§ 14:11 ECNs: pros and cons
§ 14:12 Financial market fees
§ 14:13 ECN regulations
§ 14:14 High frequency trading

CHAPTER 14A. REGULATION OF SWAPS

§ 14A:1 Dodd-Frank swap regulation
§ 14A:2 CFTC and SEC regulations
§ 14A:3 Cases on Swaps
§ 14A:4 Over-the-counter precious metals contracts
§ 14A:5 Bit coins and binary options
§ 14A:6 Prediction ('Event') Contracts and Perpetual Futures

CHAPTER 15. BROKER-DEALER EMPLOYMENT ISSUES

§ 15:1 Discharge issues for broker-dealers

§ 15:2 Standards for terminating employment
§ 15:3 Libel and slander
§ 15:4 Privacy claims and whistle blowing
§ 15:5 Discrimination claims and sexual harassment
§ 15:6 Arbitration of employment disputes
§ 15:7 Employee raids and solicitation of former customers
§ 15:8 Recovery of up front compensation from account executives and bonus issues
§ 15:9 Employee indemnifications

CHAPTER 16. INTERNATIONAL REGULATION

§ 16:1 Introduction
§ 16:2 Financial Services Regulation in the U.K.
§ 16:3 Financial Services Agency of Japan
§ 16:4 Germany
§ 16:5 European Union
§ 16:6 Regulatory reform in the United States
§ 16:7 Mutual recognition

Table of Laws and Rules

Table of Additional Authorities

Table of Cases

Index