Every notice of "buy-in" (including re-transmitted notice thereof) shall state the date that the contract will be closed out, the quantity and contract value of the securities covered by said contract, the settlement date of said contract and any other information deemed necessary to properly identify the contract to be closed out. Such notice shall state further that unless delivery is effected at or before 3:00 p.m. ET on the "effective date" of the "buy-in" notice, the security may be "bought-in" on the date specified for the account of the seller. Each "buy-in" notice shall also state the name and telephone number of the individual authorized to pursue further discussions concerning the buy-in.

(d) Procedures for Closing of Contracts

(1)(A) A seller that has received a "buy-in" notice, pursuant to this Rule, or re-transmitted notice thereof, and that has not rejected or stayed the notice as provided by this Rule, shall deliver the securities to the party issuing such notice at or before 3:00 p.m. ET on the "effective date" of the "buy-in" notice unless otherwise agreed to by the issuing party, prior to execution of the "buy-in" and such seller having notified the issuing party that it has physical possession of the securities. If the issuing party, prior to the execution of the "buy-in" pursuant to this Rule, is notified by a seller that some or all of the securities (but not less than one trading unit) are in the seller's physical possession and will be promptly delivered to such member, then the order to "buy-in" shall not be executed with respect to such securities, and the member that has initiated the original order to "buy-in" shall accept and pay for such securities, if delivered promptly. If such securities are not promptly delivered, the seller that has stated that they would be promptly delivered shall be liable for any resulting damages.

(B) On failure of the seller to effect delivery in accordance with the "buy-in" notice, or to obtain a stay as provided in this Rule, the buyer may close the contract by purchasing all or part of the securities necessary to satisfy the amount requested in the "buy-in" notice. Securities delivered to the buyer by the seller subsequent to the receipt of the "buy-in" notice shall be considered as delivered pursuant to the "buy-in" notice. Delivery of the requisite number of shares, as stated in the "buy-in" notice, or execution of the "buy-in" by the buyer against the seller will also operate to close-out all contracts covered under re-transmitted notices of buy-ins issued pursuant to the original notice of buy-in. However, if a re-transmitted notice is sent by a member prior to the delivery of the requisite number of shares as stated in the "buy-in" notice, or prior to the execution of the "buy-in," but such notice is not received by the recipient until after the delivery of the shares or execution of the "buy-in," then the member that sent the notice may, unless otherwise agreed, promptly re-establish, by a new sale, the contract with respect to which such notice was sent. A "buy-in" may be executed by a member from its long position and/or from customers' accounts maintained with such member.

(C) For transactions where the buyer is a customer (other than another member), upon failure of a clearing corporation to effect delivery in accordance with a buy-in notice, the contract must be closed by purchasing for "cash" in the best available market, or at the option of the buyer for guaranteed delivery, for the account and liability of the party in default all or any part of the securities necessary to complete the contract.

(D) As provided in paragraphs (d)(1)(A) through (C) of this Rule, members must be prepared to defend the price at which the "buy-in" is executed relative to the current market at the time of the "buy-in."

(2) Buy-in for unit investment trust securities. Buy-in execution options, in addition to those contained in paragraph (d)(1), may be available when the buyer wishes to buy-in contracts made for unit investment trust securities. The buyer may:

(A) by mutual agreement, accept from the seller in lieu of the seller's obligation under the original contract (which shall be concurrently canceled) the delivery of unit investment trust securities which are comparable to those originally bought in quantity, quality, yield or price and maturity, with any additional expenses or any additional cost of acquiring such substituted securities being borne by the seller;

(B) if the buyer's options in paragraph (d)(1) are not available and the buyer and seller cannot agree upon the option in paragraph (d)(2)(A), above, require the seller, for the account and liability of the seller, to repurchase the unit investment trust securities on terms which provide that the seller pay an amount which requires the seller to bear the burden of any change in the market price from the original contract price, with accrued interest. Bearing the burden of any change in the market price from the original contract price means that if the current market price is higher than the original contract price, the buyer may require the seller to repurchase the unit investment trust securities at the current market price and conversely means that if the current market price is lower than the original contract price, the buyer may require the seller to repurchase the unit investment trust securities at the original contract price, with accrued interest.

(e) "Buy-in" Not Completed

(1) In the event that a "buy-in" is not completed pursuant to the provisions of paragraph (d) hereof on the day specified in the notice of "buy-in," or as such date may be extended pursuant to the provisions of this Rule, said notice shall expire at the close of business on the day specified in the notice of buy-in.

(2) When a "buy-in" notice for a reconfirmation eligible security is pending during a reconfirmation and pricing period and one or more members are participating in a reconfirmation and pricing service, such "buy-in" notice shall be canceled. Written notice of cancellation must be received by the non-participating member prior to the original or extended date of execution. Failure to provide such notification may

result in an execution. New notice of "buy-in" may be issued no earlier than the first business day following the final reconfirmation and pricing settlement date.

(f) Delivery by Seller

Prior to the closing of a contract on which a "buy-in" notice has been given, the buyer shall accept delivery of the securities called for by the contract, provided that in the case of a partial delivery of securities called for by the contract, the portion remaining undelivered at the time the buyer proposes to execute the "buy-in" is not an amount which includes an odd-lot which was not part of the original transaction.

(g) Securities in Transit

If prior to the closing of a contract on which a "buy-in" notice has been given, the buyer receives from the seller written or comparable electronic notice stating that the securities, except for those securities due from a depository, are (1) in transfer; (2) in transit; (3) being shipped that day; (4) due from a depository, and giving the certificate numbers of the securities; then the buyer must extend the execution date of the "buy-in" for a period of seven (7) calendar days from the date delivery was due under the "buy-in." Upon request of the seller, an additional extension of seven (7) calendar days may be granted by the Committee due to the circumstances involved.

(h) Notice of Executed "Buy-In"

The party executing the "buy-in" shall immediately upon execution, but no later than 6:00 p.m. ET on the date of execution of the buy-in, notify the party for whose account the securities were bought as to the quantity purchased and the price paid. Such notification shall be in written or electronic form having immediate receipt capabilities. If this written media is not available the telephone shall be used for the purpose of same day notification, and written or similar electronic notification having next day receipt capabilities must also be sent out simultaneously. In either case formal confirmation of purchase shall be forwarded to the party entitled to receive the same not later than 9:30 a.m. ET on the following business day after the execution of the "buy-in." Notification of the execution of a "buy-in" shall be given to succeeding parties to which a re-transmitted notice was issued pursuant to paragraph (c) of this Rule using the same procedures stated in this paragraph. If a re-transmitted "buy-in" is executed, it will operate to close out all contracts covered under the re-transmitted notice. Statements of resulting money differences, if any, shall also be provided immediately. Any money difference resulting from the closing of a contract, or from the re-establishment of a contract as provided in this Rule, shall be paid not later than 3:00 p.m. ET on the business day after the settlement date of the executed “buy-in” to the member entitled to receive the same.

(i) "Close-Out" Under Uniform Practice Code Committee Rulings

(1) When a national securities exchange makes a ruling that all open contracts with a particular member, which is also a member of FINRA, should be closed-out immediately (or any similar ruling), members may close-out contracts as directed by the exchange.

(2) Whenever the Uniform Practice Code Committee ascertains that a court has appointed a receiver for any member because of its insolvency or failure to meet its obligations, or whenever the Uniform Practice Code Committee ascertains, based upon evidence before it, that a member cannot meet its obligations as they become due and that such action will be in the public interest, the Uniform Practice Code Committee may, in its discretion, issue notification that all open contracts with the member in question may be closed-out immediately.

(3) Within the meaning of this paragraph (i), to close-out immediately shall mean that (A) "buy-ins" may be executed without prior notice of intent to "buy-in" and (B) "sell-outs" may be executed without making prior delivery of the securities called for.

(4) All close-outs executed pursuant to the provisions of this paragraph (i) shall be executed for the account and liability of the member in question. Notification of all close-outs shall immediately be sent to such member pursuant to the confirmation provisions of the Rule 11200 Series at least thirty minutes before such close-out.

(j) Failure to Deliver and Liability Notice Procedures

(1)(A) If a contract is for warrants, rights, convertible securities or other securities which (i) have been called for redemption; (ii) are due to expire by their terms; (iii) are the subject of a tender or exchange offer; or (iv) are subject to other expiring events such as a record date for the underlying security and the last day on which the securities must be delivered or surrendered (the expiration date) is the settlement date of the contract or later, the receiving member may deliver a Liability Notice to the delivering member as an alternative to the close-out procedures set forth in paragraphs (b) through (h). When the parties to a contract are both participants in a registered clearing agency that has an automated service for notifying a failing party of the liability that will be attendant to a failure to deliver, the transmission of the liability notice must be accomplished through the use of said automated notification service. When the parties to a contract are not both participants in a registered clearing agency that has an automated service for notifying a failing party of the liability that will be attendant to a failure to deliver, such notice must be issued using written or comparable electronic media having immediate receipt capabilities, and must be sent as soon as practicable but not later than two hours prior to the cutoff time set forth in the instructions on a specific offer or other event in order to obtain the protection provided by this Rule.

(B) If the contract is for a deliverable instrument with an exercise provision and the exercise may be accomplished on a daily basis, and the settlement date of the contract to purchase the instrument is on or before the requested exercise date, the receiving member may deliver a Liability Notice to the delivering member no later than 11:00 a.m. ET on the day the exercise is to be effected. Notice may be redelivered immediately to another member but no later than noon ET on the same day. When the parties to a contract are both participants in a registered clearing agency that has an automated service for notifying a failing party of the liability that will be attendant to a failure to deliver, the transmission of the liability notice must be accomplished through use of said automated notification service. When the parties to a contract are not both participants in a registered clearing agency that has an automated service for notifying a failing party of the liability that will be attendant to a failure to deliver, such notice must be issued using written or comparable electronic media having immediate receipt capabilities. If the contract remains undelivered at expiration, and has not been canceled by mutual consent, the receiving member shall notify the defaulting member of the exact amount of the liability on the next business day.

(C) In all cases, members must be prepared to document requests for which a Liability Notice is initiated.

(2) If the delivering member fails to deliver the securities on the expiration date, the delivering member shall be liable for any damages which may accrue thereby. A Liability Notice delivered in accordance with the provisions of this Rule shall serve as notification by the receiving member of the existence of a claim for damages. All claims for such damages shall be made promptly.

(3) For the purposes of this Rule, the term "expiration date" shall be defined as the latest time and date on which securities must be delivered or surrendered, up to and including the last day of the protect period, if any.

(4) If the above procedures are not utilized as provided under this Rule, contracts may be "bought-in" without prior notice, after normal delivery hours, on the expiration date. Such buy-in execution shall be for the account and risk of the defaulting member.

(k) Contracts Made for Cash

Contracts made for "cash," or made for or amended to include guaranteed delivery on a specified date may be "bought-in" without notice during the normal trading hours on the day following the date delivery is due on the contract; otherwise, the procedures set forth in paragraphs (b) through (g) of this Rule shall apply. In all cases, notification of executed "buy-in" must be provided pursuant to paragraph (h) of this Rule. "Buy-ins" executed in accordance with this paragraph shall be for the account and risk of the defaulting broker-dealer.

(l) "Buy-In" Desk Required

Members shall have a "buy-in" section or desk adequately staffed to process and research all "buy-ins" within the required time frames of this Rule.

(m) Buy-In of Accrued Securities

Securities in the form of stock, rights or warrants which accrue to a buyer shall be deemed due and deliverable to the buyer on the payable date. Any such securities remaining undelivered at that time shall be subject to the "buy-in" procedures as provided under this Rule.

• • • Supplementary Material: ----------

.01 Early Closures of Markets. For purposes of paragraphs (c) and (d)(1)(A) of this Rule, in the event of an announced early closure of the market upon which the security subject to the "buy-in" notice is traded, members may take the action required by such paragraphs not earlier than one hour prior to the announced early closure of such market.

.02 Securities Delivered by Seller After Execution of "Buy-In." Where securities have been delivered by the seller after the "buy-in" order has been placed by the party affecting the "buy-in," the securities may be returned to the seller if the "buy-in" was executed in accordance with this Rule before it could reasonably be cancelled by the initiating party.

.03 Sample Buy-In Forms.

(a) Notice of Buy-In

	.....
	(Member's Name)
	.....

	(Locality and Date)
TO	
RE	
(Quantity and Description of Security)	
which is due from you to the undersigned on a contract made on ..... at ..... for settlement	
(Date of Contract)	(Contract Price)
.....	
(Settlement Date)	
* * *	
We hereby notify you that unless you make delivery of the foregoing security at or before ..... (Time and Date) the security will be bought in for your account and risk pursuant to Rule 11810 in the Uniform Practice Code.	
Note: If some or all of the foregoing securities are due you by another member of the Financial Industry Regulatory Authority, Inc. Rule 11810 permits the use of the re-transmitted buy-in.	
Buy-In Dept.	
By:	
Phone:	

(b) Notice of Re-transmitted Buy-In

	.....
	(Member's Name)
	.....
	(Locality and Date)
TO	
RE	
(Quantity and Description of Security)	
which is due from you to the undersigned on a contract made on ..... at ..... for settlement on	
(Date of Contract)	(Contract Price)
.....	
(Settlement Date)	
* * *	
We hereby inform you that a notice of buy-in has been issued with respect to the aforesaid securities and stated that unless delivery was made at or before ..... (Time and date on original buy-in) the securities may be bought in pursuant to Rule 11810 of the Uniform Practice Code.	
Note: If some or all of the foregoing securities are due you by another member of the Financial Industry Regulatory Authority, Inc. Rule 11810 also permits you to use the re-transmitted buy-in.	
Buy-In Dept.	

By:
Phone:

Amended by SR-FINRA-2016-047 eff. Sept. 5, 2017.
Amended by SR-FINRA-2010-030 eff. Dec. 15, 2010.
Amended by SR-NASD-2007-035 eff. March 13, 2008.
Amended by SR-NASD-2005-087 eff. Aug. 1, 2006.
Amended by SR-NASD-95-50 eff. Dec. 28, 1995.
Amended by SR-NASD-91-61 eff. Mar. 1, 1993.
Amended by SR-NASD-89-34 eff. Feb 1, 1990.
Amended by SR-NASD-87-10 eff. June 1, 1989.
Amended by SR-NASD-84-20 eff. Jan. 1, 1985.
Amended by SR-NASD-83-8 eff. Oct. 14, 1983.
Amended by SR-NASD-82-1 eff. Mar. 12, 1982; Mar. 18, 1983.
Amended eff. Jan. 2, 1968; Feb. 9, 1968; Feb. 21, 1969; Sept. 1, 1969; Mar. 1, 1970; June 1, 1970; Sept. 1, 1970; Aug. 1, 1972; Dec. 1, 1972; May 1, 1973; Jan. 13, 1977; Apr. 7, 1978.

Selected Notices: 73-39, 82-34, 83-6, 83-69, 84-68, 86-59, 89-44, 89-56, 90-15, 93-17, 96-8, 08-06, 10-49, 17-19.

‹ 11800. CLOSE-OUT PROCEDURES UP 11820. SELLING-OUT ›

VERSIONS

Sep 05, 2017 onwards

11820. Selling-Out

(a) Conditions Permitting "Sell-Out"

Upon failure of the buyer to accept delivery in accordance with the terms of the contract, and lacking a properly executed Uniform Reclamation Form or the equivalent depository generated advice for depository eligible securities meeting the requirements prescribed in Rule 11710(b), the seller may, without notice, "sell-out" in the best available market and for the account and liability of the party in default all or any part of the securities due or deliverable under the contract.

(b) Notice of "Sell-Out"

The party executing a "sell-out" as prescribed above shall, as promptly as possible on the day of execution, but no later than 6 p.m. ET, notify the broker-dealer for whose account and risk such securities were sold of the quantity sold and the price received. Such notification shall be in written or electronic form having immediate receipt capabilities. A formal confirmation of such sale shall be forwarded as promptly as possible after the execution of the "sell-out."

Amended by SR-FINRA-2010-030 eff. Dec. 15, 2010.
Amended by SR-NASD-91-13 eff. Nov. 1, 1991.
Amended eff. Feb. 21, 1969; Sept. 1, 1969.

Selected Notice: 10-49.

‹ 11810. BUY-IN PROCEDURES AND REQUIREMENTS UP 11830. RESERVED. ›

11830. Reserved.

Past version: effective up to Dec 14, 2010.

Deleted by SR-FINRA-2010-060 eff. Dec. 15, 2010.
Amended by SR-FINRA-2010-030 eff. Dec. 15, 2010.
Amended by SR-NASD-2004-175 eff. Jan. 3, 2005.
Adopted eff. July 14, 1993.

Selected Notices: 93-53, 10-49.

‹ 11820. SELLING-OUT UP 11840. RIGHTS AND WARRANTS ›

11840. Rights and Warrants

(a) Definition — "Rights"

The term "rights" or "rights to subscribe," as used in this Rule is the privilege offered to holders of record of issued securities to subscribe (usually on a pro rata basis) for additional securities of the same class, of a different class, or of a different issuer as the case may be.

(b) Definition — "Warrants"

The term "warrants" or "stock purchase warrants" as used in this Rule is an instrument issued separately or accompanying other securities, but not necessarily issued to stockholders of record as of a specific date; i.e., warrants issued with or attached to bonds, common stock, preferred stocks, etc. The instrument represents the privilege to purchase securities at a stipulated price or prices and is usually valid for several years.

(c) Basis and Unit of Trading — Rights

Except as otherwise designated by the Committee, transactions in rights to subscribe shall be on the basis of one right accruing to each share of issued stock and the unit of trading in rights shall be 100 rights (unless otherwise specified).

(d) Basis and Unit of Trading — Warrants

Except as otherwise agreed or designated by the Committee, transactions in stock purchase warrants shall be on the basis of one warrant representing the right of the purchaser to receive one warrant in settlement of such transaction and the unit of trading shall be 100 warrants. Members must ascertain how many warrants they have to sell, what each warrant entitles the holder to purchase, the purchase price, and the current price of the warrant relative to the price of the underlying security which may be purchased. Trades in warrants should be properly described on comparisons and confirmations.

(e) Securities Which Have Expired by Their Terms

(1) In contracts for warrants, rights or other securities which have expired by their terms, deliveries effected more than 30 days after expiration shall be consist of (A) the expired securities; or (B) a Letter of Indemnity in lieu of the expired instrument.

(2) In the case of units or other securities of which one or more of the integral parts of the instrument has expired by its terms, after expiration, the instrument shall cease to be a unit as originally contemplated in the contract. Deliveries effected after expiration shall consist of the unexpired security and (A) the expired instrument; or (B) a Letter of Indemnity in lieu of the expired instrument.

(3) Deliveries effected pursuant to paragraphs (e)(1) and (2) of this Rule shall be settled at the existing contract price.

• • • Supplementary Material: ----------

.01 Sample Letter of Indemnity.

	_____ (Date)
To:_____	
Re:_____	
(Quantity and Description)	

	CUSIP #:_____
For value received the undersigned hereby assigns, transfers and sets over to you all rights and privileges which may accrue on the above contract made on (Date of Contract) _____ at (Contract Price) _____ for settlement (Settlement Date).	
Upon acceptance of this delivery in lieu of physical certificates, we agree, for ourselves, our successors, assigns, heirs, executors and administrators, to at all times indemnify and hold harmless from and against any and all claims, liabilities, damages, taxes, charges and expense sustained or incurred by reason of this action. Acceptance of this delivery shall operate to close-out the above stated contract in accordance with the provisions of the FINRA's Uniform Practice Code.	
_____ (Member Firm)	_____ (Official Signature)
If any questions, please contact _____at (Telephone Number)_____	

Amended by SR-FINRA-2010-030 eff. Dec. 15, 2010.
Amended by SR-NASD-91-13 eff. Nov. 1, 1991.
Amended eff. Sept. 1, 1969; Mar. 1, 1970.

Selected Notice: 10-49.

‹ 11830. RESERVED. UP 11860. COD ORDERS ›

11860. COD Orders

(a) No member shall accept an order from a customer, including foreign customers and/or broker-dealers trading with or through the member, for eligible transactions of such customers that settle in the United States, pursuant to an arrangement whereby payment for securities purchased or delivery of securities sold is to be made to or by an agent of the customer unless all of the following procedures are followed:

(1) The member shall have received from the customer prior to or at the time of accepting the order, the name and address of the agent and the time and account number of the customer on file with the agent and institution number, where appropriate.

(2) Each order accepted from the customer pursuant to such an arrangement has noted thereon the fact that it is a payment on delivery (POD) or collect on delivery (COD) transaction.

(3) The member shall deliver to the customer a confirmation, or all relevant data customarily contained in a confirmation with respect to the execution of the order, in whole or in part, not later than the close of business on the next business day after any such execution.

(4) The member shall have obtained an agreement from the customer that the customer will furnish its agent instructions with respect to the receipt or delivery of the securities involved in the transaction promptly upon receipt by the customer of each confirmation, or the relevant data as to each execution, relating to such order (even though such execution represents the purchase or sale of only a part of the order), and that in any event the customer will assure that such instructions are delivered to its agent no later than:

(A) in the case of a purchase by the customer where the agent is to receive the securities against payment (COD), the close of business on the first business day after the date of execution of the trade as to which the particular confirmation relates; or

(B) in the case of a sale by the customer where the agent is to deliver the securities against payment (POD), the close of business on the first business day after the date of execution of the trade as to which the particular confirmation relates.

(5) The facilities of a Clearing Agency shall be utilized for the book-entry settlement of all depository eligible transactions except transactions that are to be settled outside the United States. The facilities of either a Clearing Agency or a Qualified Vendor shall be utilized for the electronic confirmation and affirmation of all depository eligible transactions.

(b) Definitions

For purposes of this Rule, the following terms shall have the meanings stated below:

(1) "Clearing Agency" shall mean a clearing agency as defined in Section 3(a)(23) of the Exchange Act that is registered with the SEC pursuant to Section 17A(b)(2) of the Exchange Act or has obtained from the SEC an exemption from registration granted specifically to allow the clearing agency to provide confirmation and affirmation services.

(2) "Depository eligible transactions" shall mean transactions in those securities for which confirmation, affirmation or book entry settlement can be performed through the facilities of a Clearing Agency. Eligible sinking funds and/or dividends reinvestment transactions must be confirmed, acknowledged and book entry settled through the facilities of a registered securities depository.

(3) "Qualified Vendor" shall mean a vendor or electronic confirmation and affirmation service that:

(A) shall, for each transaction subject to this Rule: (i) deliver a trade record to a Clearing Agency in the Clearing Agency's format; (ii) obtain a control number for the trade record from the Clearing Agency; (iii) cross-reference the control number to the confirmation and subsequent affirmation of the trade; and (iv) include the control number when delivering the affirmation of the trade to the Clearing Agency;

(B) certifies to its customers (i) with respect to its electronic trade confirmation/affirmation system, that it has a capacity requirements evaluation and monitoring process that allows the vendor to formulate current and anticipated estimated capacity requirements; (ii) that its electronic trade confirmation/affirmation system has sufficient capacity to process the specified volume of data that it reasonably anticipates to be entered into its electronic trade confirmation/affirmation system during the upcoming year; (iii) that its electronic trade confirmation/affirmation system has formal contingency procedures, that the entity has followed a formal process of reviewing the likelihood of contingency occurrences, and that the contingency protocols are reviewed, tested and updated on a regular basis; (iv) that its electronic trade confirmation/affirmation system has a process for preventing, detecting, and controlling any potential or actual systems integrity failures, and its procedures designed to protect against security breaches are followed; and (v) that its current assets exceed its current liabilities by at least $500,000;

(C) when it begins providing such services and annually thereafter, submits an Auditor's Report to the SEC staff which is not deemed unacceptable by the SEC staff;

(D) notifies the SEC staff immediately in writing of any changes to its confirmation affirmation services that significantly affect or have the potential to significantly affect its electronic trade confirmation/affirmation systems, including without limitation, changes that: (i) affect or potentially affect the capacity or security of its electronic trade confirmation/affirmation system; (ii) rely on new or substantially different technology; or (iii) provide a new service to the Qualified Vendor's electronic trade confirmation/affirmation system;

(E) immediately notifies the SEC staff in writing if it intends to cease providing services, and supplies supplemental information regarding its electronic trade confirmation/affirmation services as requested by FINRA or SEC staff;

(F) provides FINRA with copies of any submissions to the SEC staff made pursuant to subparagraphs (C), (D) and (E) above within ten (10) business days of such submissions; and

(G) A vendor may cease to be qualified if the SEC staff: (i) deems the Auditor's report unacceptable either because it contains any findings of material weaknesses, or for other identified reasons; or (ii) notifies the vendor in writing that it is no longer qualified. If the vendor ceases to be qualified, the member using that vendor shall not be deemed in violation of this Rule if it ceases using such vendor promptly upon receiving notice that the vendor is no longer qualified.

(4) "Auditor's Report" shall mean a written report that is prepared by competent, independent, external audit personnel in accordance with the standards of the American Institute of Certified Public Accountants and the Information Systems Audit and Control Association and that (i) verifies the certifications contained in paragraph (b)(3)(B) above; (ii) contains a risk analysis of all aspects of the entity's information technology systems, including, without limitation, computer operations, telecommunications, data security, systems development, capacity planning and testing, and contingency planning and testing; and (iii) contains the written response of the entity's management to the information provided pursuant to (i) and (ii) of this paragraph (b)(4).

Amended by SR-FINRA-2016-047 eff. Sept. 5, 2017.
Amended by SR-FINRA-2010-030 eff. Dec. 15, 2010.
Amended by SR-NASD-98-20 eff. June 28, 1999.
Amended by SR-NASD-94-56eff. June 7, 1995.
Amended eff. Feb. 11, 1988.
Adopted eff. Nov. 19, 1982.

Selected Notices: 86-60, 88-3, 95-36, 10-49, 17-19.

‹ 11840. RIGHTS AND WARRANTS UP 11870. CUSTOMER ACCOUNT TRANSFER CONTRACTS ›

VERSIONS

Sep 05, 2017 onwards

11870. Customer Account Transfer Contracts

The Rule | Notices

(a) Responsibility to Expedite Customer's Request

(1) When a customer whose securities account is carried by a member (the "carrying member") wishes to transfer securities account assets, in whole or in specifically designated part, to another member (the "receiving member") and gives authorized instructions to the receiving member, both members must expedite and coordinate activities with respect to the transfer.

(2) If a customer desires to transfer a portion of his or her account outside of the Automated Customer Account Transfer Service (ACATS), authorized alternate instructions should be transmitted to the carrying member indicating such intent and specifying the designated assets to be transferred. Although such transfers are not subject to the provisions of this Rule, members must expedite all authorized account asset transfers, whether through ACATS or via other means permissible under this Rule, and coordinate their activities with respect thereto. Unless otherwise indicated, the automated customer account transfer capabilities referred to in paragraph (m)(1) of this Rule shall be utilized for partial transfers.

(3) For purposes of this Rule, customer authorization pursuant to a transfer instruction could be the customer's actual signature, or an electronic signature in a format recognized as valid under federal law to conduct interstate commerce.

(b) Transfer Procedures

(1) Upon receipt from the customer of an authorized broker-to-broker transfer instruction form ("TIF") to receive such customer's securities account assets in whole or in specifically designated part, from the carrying member, the receiving member must immediately submit such instruction to the carrying member by establishing such instruction in ACATS. The carrying member must, within one business day following the establishment of such account transfer instructions, or receipt of a TIF directly from the customer authorizing the transfer of assets in specifically designated part: (A) validate the transfer instruction to the receiving member (with an attachment reflecting all positions and money balances to be transferred as shown on its books); or (B) take exception to the transfer instruction for reasons other than securities positions or money balance discrepancies and advise the receiving member of the exception taken. The time frame(s) set forth in this paragraph will change, as determined from time-to-time in any publication, relating to the ACATS facility, by the National Securities Clearing Corporation (NSCC).

(2) The carrying member and the receiving member must promptly resolve any exceptions taken to the transfer instruction.

(c) Transfer Instructions

(1) Securities account asset transfers accomplished pursuant to this Rule are subject to the following conditions, which the customer must be informed of, affirm, or authorize (as the case may be) through their inclusion in the transfer instruction the customer is required to authorize to initiate the account asset transfer:

(A) To the extent any account assets are not readily transferable, with or without penalties, such assets may not be transferred within the time frames required by this Rule.

(B) The customer will be contacted in writing by the carrying member, and/or by the receiving member, with respect to the disposition of nontransferable assets other than proprietary money market fund assets (if any), indicated in an instruction to transfer specifically designated account assets. (See paragraphs (c)(3) and (4) below for customer notification requirements pertaining to transfers of securities account assets in whole.)

(C) If securities accounts assets in whole, other than retirement plan account assets, are being transferred, the customer must affirm that he or she has destroyed or returned to the carrying member any credit/debit cards and/or unused checks issued in connection with the account.

(D) For purposes of this Rule, a "nontransferable asset" shall mean an asset that is incapable of being transferred from the carrying member to the receiving member because it is:

(i) an asset that is a proprietary product of the carrying member;

(ii) an asset that is a product of a third party (e.g., mutual fund/money market fund) with which the receiving member does not maintain the relationship or arrangement necessary to receive/carry the asset for the customer's account;

(iii) an asset that may not be received due to regulatory limitations on the scope of the receiving member's business;

(iv) an asset that is a bankrupt issue for which the carrying member does not possess (which shall be deemed to include possession at a securities depository for the carrying member's account) the proper denominations or quantity of shares necessary to effect delivery and no transfer agent is available to re-register the shares;

(v) an asset that is an issue for which the proper denominations cannot be obtained pursuant to governmental regulation or the issuance terms of the product (e.g., foreign securities, baby bonds, etc.);

(vi) limited partnership interests in retail accounts.

(E) The carrying member and the receiving member must promptly resolve and reverse any nontransferable assets that were not properly identified during validation. In all cases, each member shall promptly update its records and bookkeeping systems and notify the customer of the action taken.

(2) A proprietary product of the carrying member shall be deemed nontransferable unless the receiving member has agreed to accept transfer of the product. Upon receipt of the asset validation report, the receiving member shall designate any assets that are a product of a third party (e.g., mutual fund/money market fund) with which the receiving member does not maintain the relationship or arrangement necessary to receive/carry the asset for the customer's account. The carrying member, upon receipt of such designation, may treat such designated assets as nontransferable and refrain from transferring the designated assets.

(3) If securities account assets to be transferred in whole include any nontransferable assets that are proprietary products of the carrying member, the carrying member must provide the customer with a list of the specific assets and request, in writing and prior to or at the time of validation of the transfer instruction, further instructions from the customer with respect to the disposition of such assets. In particular, such request should provide, where applicable, the customer with the following alternative methods of disposition for nontransferable assets:

(A) Liquidation, with a specific indication of any redemption or other liquidation-related fees that may result from such liquidation and that those fees may be deducted from the money balance due the customer and that any remaining balance will be distributed to the customer, including the method by which it will be so distributed.

(B) Retention by the carrying member for the customer's benefit.

(C) Transfer, physically and directly, in the customer's name to the customer.

(4) If securities account assets to be transferred in whole include any nontransferable assets that the receiving member has designated as assets that are a product of a third party (e.g., mutual fund/money market fund) with which the receiving member does not maintain the relationship or arrangement necessary to receive/carry the asset for the customer's account, the receiving member must provide the customer with a list of the specific assets and request, in writing and prior to the time it makes such designation, further instructions from the customer with respect to the disposition of such assets. In particular, such request should, where applicable, provide the customer with the following alternative methods of disposition for nontransferable assets:

(A) Liquidation, with a specific indication of any redemption or other liquidation-related fees that may result from such liquidation and that those fees may be deducted from the money balance due the customer. The indication must also refer the customer to the fund prospectus or to their registered representative at the carrying firm for specific details regarding any such fees.

(B) Retention by the carrying member for the customer's benefit.

(C) Shipment, physically and directly, in the customer's name to the customer.

(D) Transfer to the third party that is the original source of the product, for credit to an account opened by the customer with that third party.

(5) If the customer has authorized liquidation or transfer of assets deemed to be nontransferable, the carrying member must distribute the resulting money balance to the customer or initiate the transfer within five (5) business days following receipt of the customer's disposition instructions.

(6) With respect to transfers of retirement plan securities account assets, the customer authorizes the custodian/trustee for the account:

(A) to deduct any outstanding fees due the custodian/trustee from the credit balance in the account, or

(B) if the account does not contain a credit balance, or if the credit balance in the account is insufficient to satisfy any outstanding fees due the custodian/trustee, to liquidate assets in the account to the extent necessary to satisfy any outstanding fees due the custodian/trustee.

(d) Validation of Transfer Instructions

(1) Upon validation of an instruction to transfer securities account assets in whole, a carrying member must "freeze" the account to be transferred, i.e., all open orders, with the exception of option positions that expire within seven (7) business days, must be canceled and no new orders may be taken.

(2) A carrying member may not take exception to a transfer instruction, and therefore deny validation of the transfer instruction, because of a dispute over securities positions or the money balance in the account to be transferred. Such alleged discrepancies notwithstanding, the carrying member must transfer the securities positions and/or money balance reflected on its books for the account.

(3) A carrying member may take exception to a transfer instruction only if:

(A) Additional documentation is required (e.g., legal documents such as death or marriage certificate);

(B) the account is "flat" and reflects no transferable assets;

(C) the account number is invalid (i.e., the account number is not on the carrying member's books); however, if the carrying member has changed the account number for purposes of internally reassigning the account to another broker or account executive, it is the responsibility of the carrying firm to track the changed account number, and such reassigned account number shall not be considered invalid for purposes of fulfilling a transfer instruction.

(D) it is a duplicate request;

(E) it violates the member's credit policy;

(F) it contains unrecognized residual credit assets (receiving member cannot identify customer);

(G) the customer rescinds the instruction (e.g., the customer has submitted written request to cancel transfer);

(H) there is a mismatch of the Social Security number/Tax ID (e.g., the number on the transfer instruction does not correspond to that on the carrying member's records);

(I) the account title on the transfer instruction does not match that on the carrying member's records;

(J) the account type on the transfer instruction does not correspond to that on the carrying member's records;

(K) the transfer instruction is missing or contains an improper authorization (e.g., TIF requires an additional customer authorization or successor custodian's acceptance authorization or custodial approval); or

(L) the customer has taken possession of the assets in the account (e.g., the account assets in question have been transferred directly to the customer).

(4) If a carrying member takes exception to a transfer instruction because the account is "flat," as provided in subparagraph (3)(B) above, the receiving member may re-submit the transfer instruction only if the most recent customer statement is attached.

(5)(A) Upon validation of an instruction to transfer securities account assets in whole or in specifically designated part, the carrying member must return the transfer instruction to the receiving member with an attachment indicating all securities positions, safekeeping positions, and money balances to be transferred as shown on the books of the carrying member. Except as hereinafter provided, the attachment must include a then-current market value for all assets so indicated. If a then-current market value for an asset cannot be determined (e.g., a limited partnership interest), the asset must be valued at original cost. However, delayed delivery assets (as defined in paragraph (j)(2) of this Rule), nontransferable assets, and assets in transfer to the customer, i.e., in possession of the transfer agent at the time of receipt of the transfer instruction by the carrying member for shipment, physically and directly to the customer, need not be valued, although the "delayed delivery," "nontransferable," or "in-transfer" status, respectively, of such assets must be indicated on the attachment.

(B) For purposes of this Rule, a "safekeeping position" shall mean any security held by a carrying member in the name of the customer. Safekeeping positions shall also include securities that are unendorsed or have a stock/bond power attached thereto.

(6) Upon validation of an instruction to transfer securities account assets in whole or in specifically designated part, the carrying member must indicate on the instruction, or by attachment, any initial margin calls, as required by Regulation T, that are outstanding as of the date of validation with respect to the account assets to be transferred.

(7) A carrying member must provide the following description, at a minimum, as asset data with respect to any municipal securities positions to be transferred that have not been assigned a CUSIP number:

(A) name of the issuer;

(B) interest rate and dated date;

(C) maturity date and put date, if applicable, and if the securities are limited tax, subject to redemption prior to maturity (callable), or revenue bonds; an indication to such effect, including in the case of revenue bonds, the type of revenue, if necessary for a materially complete description of the securities; and

(D) if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service, or if there is more than one such obligor, the statement "multiple obligors" may be shown.

(8) After validation of the transfer instruction by the carrying member, a receiving member may reject a transfer of account assets in whole only if the account is not in compliance with the receiving member's credit policies or minimum asset requirements. (A receiving member may deem an account not in compliance with Regulation T requirements as not in compliance with its credit policies.) A receiving member, however, may only reject the entire account for such reasons; it may not reject only a portion of the account assets (e.g., the particular assets not in compliance with the member's credit policies or minimum asset requirement) while accepting the remainder.

(e) Completion of the Transfer

Within three business days following the validation of a transfer instruction, the carrying member must complete the transfer of the customer's security account assets to the receiving member. The receiving member and the carrying member must immediately establish fail-to-receive and fail-to-deliver contracts at then-current market values upon their respective books of account against the long/short positions, including options, that have not been delivered/received and the receiving/carrying member must debit/credit the related money amount. The customer's security account assets shall thereupon be deemed transferred. The time frame(s) set forth in this paragraph will change, as determined from time-to-time in any publication, relating to the ACATS facility, by the NSCC.

(f) Fail Contracts Established

(1) Any fail contracts resulting from this securities account asset transfer procedure shall be included in a member's fail file and, not later than 10 business days following the date delivery was due, the member shall take steps to obtain physical possession or control of securities so failed to receive by initiating a buy-in procedure or otherwise; provided, that with respect to the following types of securities or instruments, not later than 30 business days following the date delivery was due, the member shall take steps to obtain physical possession or control of securities so failed to receive by initiating a buy-in procedure or otherwise:

(A) banker's acceptances;

(B) bond anticipation notes;

(C) certificates of deposit;

(D) commercial paper;

(E) FMAC certificates;

(F) FNMA certificates;

(G) foreign securities;

(H) GNMA certificates;

(I) limited partnership interests;

(J) municipal bonds;

(K) mutual fund shares (transferable);

(L) revenue anticipation notes;

(M) SBA certificates; and