

Testimony of

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Chairman Garrett, Ranking Member Maloney and Members of the Subcommittee:

On behalf of the Financial Industry Regulatory Authority, or FINRA, I would like to thank you for the opportunity to testify today about FINRA's operations and the regulatory programs that support our mission of protecting investors and safeguarding market integrity.

FINRA

FINRA provides the first line of oversight for broker-dealers and the U.S. securities markets, and through its comprehensive regulatory programs, regulates the firms and brokers that sell securities in the United States. FINRA oversees approximately 4,000 brokerage firms, 161,000 branch offices and 637,000 registered brokers. FINRA touches virtually every aspect of the broker-dealer business—from registering individuals to examining securities firms; writing rules and enforcing those rules and the federal securities laws; informing and educating the investing public; providing trade reporting and other industry utilities; and administering the largest dispute resolution forum for investors, brokerage firms and individual brokers.

In addition to regulating brokers and brokerage firms, FINRA monitors approximately 99 percent of all trading in U.S. listed equities markets—or nearly 6 billion shares traded each day. In fact, FINRA's market surveillance systems process approximately 30 billion market events each day to closely monitor trading activity in equity, options and fixed income markets in the United States.

We also work behind the scenes to detect and fight fraud. In addition to our own enforcement actions discussed below, each year we refer hundreds of fraud and insider trading cases to the Securities and Exchange Commission (SEC) and other agencies. FINRA regularly shares information with other regulators, leading to important actions that can prevent further harm to investors.

Finally, more than 10 years ago, FINRA established the FINRA Investor Education Foundation to support innovative research and educational projects aimed at improving the financial capability of all Americans. Together with the Foundation, FINRA is committed to providing investors with information and tools they need to better understand the markets and basic principles of investing – and to help them protect themselves.

History and SEC Oversight

Self-regulatory organizations (SROs) like FINRA have always been a cornerstone of the federal securities laws. Even before the securities laws were enacted, the securities exchanges regulated their members. In 1934, Congress codified and strengthened the governance requirements that applied to the exchanges as it created the SEC. In 1938, Congress passed the Maloney Act, which extended the SRO model to broker-dealers who trade in the over-the-counter market. In doing so, Congress stated that reliance only upon direct regulation by the SEC “would involve a pronounced expansion of [the SEC’s] organization . . . [and] a large increase in the expenditure of public funds . . .”¹ One of FINRA’s predecessor organizations, the National Association of Securities Dealers (NASD), became a registered SRO as a result of the Maloney Act. In 1975, Congress again concluded that the SRO model “should be preserved and strengthened” as it amended the federal securities laws concerning the SEC’s oversight responsibilities.²

FINRA provides significant investor protections through establishing licensing, registration and continuing education requirements, establishing rules requiring firms to develop and implement supervisory and compliance systems, and conducting regular examinations and surveillance to ensure compliance with existing laws and rules. SROs like FINRA also have flexibility to direct resources to large, multi-year technology development efforts that can support a variety of regulatory programs. SROs provide these benefits without significant additional cost to taxpayers, since they are typically funded by fees assessed on regulated entities.

Under federal law, the SEC oversees all aspects of FINRA’s programs. For example, the SEC:

- approves FINRA rulemaking and seeks public comment on FINRA proposals through notice in the *Federal Register*;
- can abrogate, add to, and delete FINRA rules as it deems necessary or appropriate in furtherance of the purposes of the Securities Exchange Act of 1934 (Exchange Act);
- hears appeals of FINRA disciplinary actions, which also may be appealed to the federal courts;
- requires FINRA to keep records and file reports with the SEC; and
- inspects FINRA regulatory programs to ensure that FINRA is fulfilling its regulatory responsibilities and to mandate corrective action as needed.

Governance

FINRA has a Board of Governors (Board) composed of a majority of public governors, along with industry representation from various sectors of the business. This organization enables FINRA’s Board, key committees and staff to act in the public interest while informed by a strong understanding of broker-dealer operations. As noted above, FINRA’s activities are overseen by the SEC.

FINRA has 16 advisory committees, generally reflecting subject-matter expertise of the broader broker-dealer industry while also incorporating perspectives of academics and investor advocates. Each committee brings a unique perspective, and FINRA staff generally discusses significant rule proposals with relevant committees early in the rulemaking process. This

¹ S. Rep. No. 1455, 75th Cong., 3d Sess. I.B.4. (1938); H.R. Rep. No. 2307, 75th Cong., 3d Sess. I.B.4. (1938) (duplicate text quoted in both reports).

² S. Rep. No. 94-75, 94th Cong., 1st Sess. 7, II (1975).

typically includes discussion of the reasons for proposing the rule change, the committees' views on any potential burdens the rule change may impose, the benefits and practical consequences of such a rule change, and possible alternatives to the rule change that might achieve the same objectives. FINRA staff also discusses items to be considered by the Board with four advisory committees, including a Small Firm Advisory Board and an Investor Issues Committee which represents and provides feedback on the interests of the investing public.

FINRA Programs and Initiatives

FINRA's regulatory programs provide oversight of broker-dealer operations and markets to deliver protection to investors. The following sections provide descriptions of certain of those programs and current initiatives.

Examinations

Every firm and broker that sells securities to the public in the United States must be licensed and registered with FINRA. FINRA has a comprehensive examination program and regularly examines all firms to determine compliance with FINRA's rules and those of the SEC and the Municipal Securities Rulemaking Board (MSRB).

During a routine examination, FINRA examines core areas of the firm's business as well as aspects of the firm that present heightened regulatory risk. Specifically, FINRA examines a firm's books and records to see if they are current and accurate. FINRA analyzes sales practices to determine whether the firm has dealt fairly with customers when making recommendations, executing orders, and charging commissions or markups and markdowns; and scrutinizes a firm's anti-money laundering program, business continuity plans, and financial integrity and internal control programs. Similarly, firms go through a rigorous review for financial and operational compliance.

FINRA uses a variety of methods to better identify risk and decide where, how and with what intensity to apply our resources. We continue to enhance the exam process by applying a risk-based approach to both the frequency of exams and the areas where our examiners focus.

In 2014, FINRA conducted over 1,600 routine cycle examinations and 933 branch office examinations. We also conducted over 4,000 cause examinations, which are narrow, targeted exams that could be initiated due to complaints, tips, referrals or other specific issues.

In January 2015, FINRA issued its tenth annual examination priorities letter. In the letter, FINRA identifies specific areas of concern that will be a focus of examinations this year, including the sale and supervision of interest-rate-sensitive and complex products, such as alternative mutual funds, as well as controls around the handling of wealth events in investors' lives, management of cybersecurity risks and treatment of senior investors.

Municipal Advisors

In June 2010, Dodd-Frank Act amendments to the Exchange Act defined "municipal advisor" as a new type of entity regulated under U.S. securities laws, required municipal advisors to act as a fiduciary when dealing with municipal entities, expanded the MSRB's authority with respect to municipal advisors and required registration of municipal advisors with the SEC. Subsequently, the SEC issued a temporary rule requiring the registration of municipal advisors. In the adopting release for its final municipal advisor registration rules on September 20, 2013, the

SEC officially designated FINRA as the examination and enforcement authority for FINRA-regulated municipal advisors. Municipal advisor examinations began July 1, 2014 to coincide with the effective date of the SEC's municipal advisor registration rules.

Office of Fraud Detection and Market Intelligence

FINRA's Office of Fraud Detection and Market Intelligence (OFDMI) provides rapid response to allegations of fraud. OFDMI reviews regulatory intelligence from numerous sources, including tips, complaints and regulatory filings, to identify and expedite review of matters involving potential fraud or other serious misconduct. OFDMI's Whistleblower unit offers a telephone hotline and dedicated email box for individuals to report evidence of potentially illegal or unethical activity which is evaluated carefully and escalated for further investigation.

In addition, OFDMI conducts robust cross-market surveillance for potential insider trading and fraud, generating hundreds of referrals each year. FINRA and the SEC have an excellent partnership in this area.

In 2014, OFDMI referred approximately 700 matters including potential insider trading and fraud to the SEC and other federal or state law enforcement agencies. A recent example is the case of Matthew Carley of Bozeman, Montana who ran a so-called "pump & dump" scheme. FINRA developed evidence that was referred to the SEC identifying red flags of market manipulation in the shares of a microcap company called Red Branch Technologies, Inc. The FINRA referral included a series of suspicious press releases disseminated by Red Branch, promotional material found online and large sales of Red Branch shares by offshore accounts. The SEC conducted an extensive follow-up investigation and filed civil charges against Carley in December 2014 for fraud as he was secretly selling millions of Red Branch shares into the artificial market he created. Also, the U.S. Attorney's Office for the Eastern District of Virginia conducted a parallel criminal investigation and also filed charges against Carley. On April 3, 2015, Carley was sentenced to 24 months in prison and ordered to pay restitution of \$2.3 million to his thousands of victims.

High-Risk Broker Program

Recognizing the potential harm individual bad actors can cause investors and the need to confront them quickly, in early 2013, FINRA launched its High-Risk Broker initiative to identify individuals for targeted, expedited investigation. Led by OFDMI, the High-Risk Broker initiative, which supplements our existing programs to evaluate complaints and conduct examinations, analyzes regulatory intelligence and structured data from a variety of sources, including broker termination filings, complaints, tips, arbitration filings, and field reports from ongoing examinations, to identify potential candidates for expedited review.

To date, over 140 registered persons designated as high-risk brokers have been barred from association with a broker-dealer. Importantly, the entire investigation and prosecution cycle for these cases averaged approximately 120 days from the time the individuals were designated as high-risk brokers. Two of these cases were completed in just eight days. This concentrated effort to identify individual potential problem brokers for expedited investigation is having a material impact in removing such persons from the securities industry.

For example, in January, 2015, FINRA began an investigation of a Beaumont, Texas-based registered representative after receiving a regulatory filing which raised suspicions about the

registered representative's role in unusual money transfers from customer accounts. Given the potential fraudulent conduct by the registered representative, he was designated as a high-risk broker. FINRA staff quickly examined the matter and obtained evidence that the registered representative converted \$20,000 from one of his elderly customer's brokerage account through unauthorized wire transfers to an account belonging to the registered representative's mother. FINRA permanently barred the registered representative in February 2015, 20 days after he was designated a high-risk broker. The brokerage firm made the customer whole.

Enforcement

One of FINRA's key functions is the enforcement of FINRA rules, MSRB rules, and federal securities laws and rules. FINRA may initiate investigations from various sources, including examination findings, filings made with FINRA, customer complaints, anonymous tips, surveillance reports, referrals from other regulators or other FINRA departments and press reports.

In 2014, FINRA brought 1,397 disciplinary actions that addressed a wide variety of misconduct. Significantly, FINRA ordered \$32.3 million in restitution to customers. These actions included two analyst cases—one finalized in November for a firm's failure to supervise communications between its equity analysts and its clients; and the other brought in December, for 10 firms allowing their equity research analysts to solicit investment banking business and for offering favorable research coverage in connection with a planned initial public offering. In addition to these monetary sanctions, there were 403 bars and 705 suspensions of individuals. Of these actions, the High-Risk Broker program accounted for 85 bars against individuals posing a particularly high risk of harm to investors.

Market Regulation

FINRA has responsibility to oversee and regulate over-the-counter (OTC) trading of exchange-listed and non-exchange-listed securities, as well as trading in corporate and municipal debt instruments and other fixed income instruments. FINRA also conducts examinations of market making and trading firms to assess compliance with FINRA trading rules and the federal securities laws. In addition, FINRA provides surveillance and other regulatory services to U.S. equity and options exchanges. FINRA has regulatory service agreements in place with 10 of the 11 U.S. equity exchanges and all U.S. options exchanges conducting market surveillance for approximately 99 percent of the listed equity market and approximately 75 percent of the listed options market. As a result, while the markets have become increasingly fragmented, through our contracts with exchange clients, FINRA has been able to aggregate trading data across the markets to conduct comprehensive, cross market surveillance. This is important because FINRA has found many instances where market participants have consciously dispersed their trading activity across multiple markets in an effort to avoid detection.

To conduct cross market surveillance, FINRA uses a variety of sophisticated online and offline surveillance techniques and programs to reconstruct market activity, using trading data and quote information that is captured second-by-second throughout the trading day, as well as order audit trail data reported daily. This cross-market surveillance enables FINRA, in partnership with exchanges and the SEC, to better protect investors and promote market integrity. FINRA also is starting to design surveillance programs that will span equities and options markets together for potential manipulative conduct.

FINRA also provides interpretive guidance on a variety of trading issues and rules, handles market-related complaints from investors, broker-dealers and other parties, and conducts market and trading-related preventative compliance activities.

As noted in FINRA's 2015 regulatory priorities letter, areas of focus for this year include potentially abusive trading algorithms, high-frequency trading (HFT), cross-market and cross-product manipulation, order routing practices, best execution and disclosure and market access controls.

Rulemaking, Economic Analysis and Retrospective Rule Review

FINRA's rulemaking process involves extensive public consultation well before a proposed rule change is filed with the SEC. In general, a significant FINRA rulemaking proposal will undergo four distinct steps before becoming effective, with external input at each step in the process. First, FINRA's staff obtains insights on possible actions by consulting with interested FINRA constituencies, including representatives of broker-dealers and investor advocates who are members of advisory committees.

Second, the proposal is submitted to the FINRA Board for consideration. Third, after the Board has approved moving forward with a rule proposal, FINRA, with respect to most significant rule filings, solicits public comments by publishing a Regulatory Notice. FINRA considers comments received and responds to the comments if FINRA subsequently files the rule proposal with the SEC.

The fourth step in FINRA's rulemaking process is filing a rule proposal with the SEC, which is published for comment in the Federal Register. As a matter of practice, FINRA responds to any substantive comment on the proposal received by the SEC, and the SEC considers these comments before it acts on a FINRA rule proposal. FINRA will often amend a rule proposal in response to comments before seeking final SEC approval. All rulemaking documentation is available to the public on the FINRA website.

In September 2013, FINRA published a statement that lays out its framework for evaluating the economic impacts associated with its rulemaking, aimed at ensuring that proposed rules are better designed to protect the investing public and maintain market integrity while minimizing unnecessary burdens. As part of the rule development process, FINRA describes the economic impacts associated with proposed rulemaking and seeks information to help refine its evaluation at each step. The Office of the Chief Economist works to integrate economic impact analysis into proposed rulemaking, implement retrospective rule reviews and conduct research and analysis.

Retrospective Rule Review

In 2014, FINRA launched its retrospective rule review initiative to periodically look back at significant rulemakings or rule sets to ensure the rules remain relevant and appropriately designed to achieve their objectives, particularly in light of environmental, industry and market changes. Through these reviews, FINRA hopes to identify duplication or overlap between related rules, improve its administration of rules, and identify significant regulatory gaps where they might exist.

Once a rule or rule set is selected for review, we request comments and feedback on fundamental questions about the effectiveness of the rules in addressing the problem(s) they were intended to mitigate, what experiences or challenges firms have had in complying with the rules, what the economic impacts of the rules have been, and if there are ways to increase the efficiency and effectiveness of the rules or process related to the rules. We also reach out to a cross section of industry representatives and other persons experienced with the rules to obtain their detailed feedback about how well the rules are working. In addition, we seek to validate and prioritize the views we have obtained by consulting with, among others, FINRA's advisory committees and by conducting a survey of regulated firms administered by the Office of the Chief Economist.

The initial two reviews conducted last year covered rules related to communications with the public and rules related to gifts, gratuities and non-cash compensation. Reports on these reviews were released in December 2014. We are developing proposed rule amendments to reflect the recommendations in those reports, as well as potential guidance or administrative changes to update and increase the efficiency and effectiveness of those rule sets. Initial proposed changes to the communications with the public rules were approved by our Board in April. FINRA recently launched its next retrospective review, on rules related to our membership application process.

Market Structure-Related Initiatives

SEC Chair Mary Jo White has set out a road map for potential future changes in the equity and fixed income markets, which specifically includes an important, ongoing role for FINRA and other SROs.

Equity Markets

In the area of equity trading, recent rulemaking efforts have been focused on automated trading activities, including HFT, with three primary objectives: first, to enhance our ability to monitor automated trading including the type and quality of information and data FINRA receives; second, to provide market participants and investors more transparency into trading activities; and third, to ensure that firms engaged in automated trading activities and their employees are properly trained, educated and accountable for their activities. FINRA's proposals call for alternative trading systems (ATs) to provide more in-depth quoting information for regulatory surveillance, tighter restrictions around allowable clock drift to better ensure proper sequencing of events, greater transparency of volume executed away from stock exchanges, registration requirements for persons involved in the design, development and significant modification of trading algorithms, and more granular audit trail information.

These rulemaking efforts properly focus FINRA's role and resources where they can have the most impact, while supporting the SEC's efforts. Each of these proposals has been published in a Regulatory Notice to provide an opportunity for more in-depth feedback and economic impact analysis prior to filing the proposals with the SEC.

Fixed Income Markets

In the area of fixed income securities, we have been working closely with the SEC and MSRB to develop ways to enhance transparency and execution quality in the fixed income market.

We recently solicited comment on a proposal to require that additional pricing information be provided to customers on their trade confirmations in corporate and agency debt securities. Putting additional pricing information in the hands of customers will better enable them to evaluate the cost and quality of the services firms provide and encourage communications between firms and their customers about their fixed income transactions. We are in the process of carefully evaluating the comments we received on this proposal.

To inform FINRA's regulation of and strengthen its ability to conduct surveillance of fixed income trading, FINRA also is requesting comment on a proposal to require ATSS to report to FINRA quotation information for corporate and agency debt securities. While there has been significant growth in the availability of automated quotations for fixed income securities, broker-dealers are not required to routinely report that quotation information to FINRA for regulatory purposes. As a result, unlike the listed equities markets where FINRA receives consolidated information on quotations, FINRA does not have ongoing access for surveillance purposes to ATS quotation information for fixed income securities. This rule proposal would be a first step to provide FINRA with better insight into the scope and accessibility of pre-trade transparency in the fixed income markets.

Similarly, in recognition of the significant changes that have occurred in the fixed income market, we plan to publish guidance on firms' best execution obligations relating to transactions in fixed income securities. This guidance will, among other things, reiterate firms' overall best execution obligations and emphasize the importance of evaluating the availability and accessibility of electronic systems and how such systems can provide benefits to their customer order flow to ensure they receive the best prices reasonably available.

Special Purpose Broker-Dealers

We are narrowing the rules that apply to firms whose business is limited to advising companies on capital raising and corporate restructuring. These broker-dealers serve small and middle-sized businesses and do not raise the same issues as broker-dealers with a wider scope; we are adjusting the rule set to reflect these differences.

JOBS Act Implementation

In order to fulfill our mandate under the JOBS Act crowdfunding provisions, we plan to file our proposed rule set applicable to crowdfunding portals immediately after the SEC adopts its Regulation Crowdfunding. FINRA has streamlined the already limited set of rules that would apply to funding portals. We intend for these rules to be in place by the time the SEC's proposed Regulation Crowdfunding goes into effect.

Comprehensive Automated Risk Data System (CARDS) Proposal

While existing tools at FINRA's disposal are used effectively to protect investors from sales practice abuse, they depend primarily on periodic examinations. In contrast, for years we have received regularly from FINRA-regulated firms transaction information allowing FINRA to monitor market integrity, and financial information allowing FINRA to monitor firms regarding compliance with financial requirements. Similarly, the concept motivating the CARDS proposal is that by enhancing our access to data and analytics, we can evolve our risk-based surveillance and examination programs regarding sales activities. This would operate as an early warning system to more effectively identify potential fraudulent activity and customer sales practice abuse to guide examinations. Accordingly, we believe that a data-driven analysis could

increase our ability to identify investor protection issues sooner and to respond quickly to stem investor harm.

We are currently in the process of evaluating the many comments we received in response to the CARDS proposal and are meeting with industry and investor groups as well as individual firms to ensure that we understand all the concerns raised. Even though we are not proposing to collect personally identifiable data (such as name, address and social security number) as part of this initiative, we understand and share the concerns raised around the potential ability of bad actors to access information that could possibly be reengineered to identify individuals. As a result, we are conducting additional analyses, engaging third-party experts to further analyze these threats and exploring alternative approaches with interested parties. We also are reviewing the feasibility of meeting the important goal of enhancing our early warning capabilities regarding fraud and investor abuse using existing data sources and the data that will become available when the Consolidated Audit Trail is implemented. To be clear, we will not move ahead with the present form of the proposal and will not move forward with an amended version until we conclude that the concerns raised in the comments have been addressed.

Transparency

FINRA operates OTC market transparency facilities that provide the public and professionals with timely quote and trade information of publicly traded equity and debt securities. They are the primary source for regulatory data on these transactions, and provide FINRA-registered firms with tools to comply with reporting obligations in secondary-market activity in fixed income and equity securities.

Trade Reporting and Compliance Engine[®] (TRACE[®])

TRACE was established in July 2002 to provide trade price information to market participants in the fixed income market and to create a regulatory database for surveillance and oversight. It has had a major impact on the way fixed income instruments trade and has significantly improved the efficiency of these markets. Academic research has indicated that TRACE reduced corporate bond spreads – the difference between the price an investor can buy and sell a bond – by approximately 50 percent and has increased the consistency of pricing of mutual funds by reducing the variance in marks to market for their underlying instruments.

The initial product focus was corporate bonds and has since been expanded to include agency debentures and mortgage backed securities that trade TBA or as specified pools. In June we will expand transparency to include asset backed securities or fixed income instruments that are backed by such things as car loans. FINRA intends to introduce additional transparency to the last remaining portions of the securitized product universe when it releases data for collateralized mortgage obligations and similar securities during the next 12 to 18 months. These steps will result in TRACE providing trade price information to the public and professionals for over 1.4 million securities and approximately \$300 billion in daily trades.

FINRA has developed an approach to providing transparency that permits a careful assessment of the impact of transparency on markets, allows market participants an opportunity to adjust to transparent markets, provides comprehensive information for regulatory activities at the earliest possible time and allows the private sector to build data products without competition from FINRA. The critical steps in the FINRA approach are (1) collecting all transactions at the beginning to provide a foundation for regulatory activities and an understanding of the market and (2) phasing in dissemination of trade prices to assess the impact of the transparency on the

market with academic partners and to provide market participants time to adjust to transparent markets. FINRA provides the basic data to the private sector to create added value products. This phased-in, analytical and consultative approach to transparency has been well received by regulators, market participants and data providers.

Dark Pool Volume Transparency Initiative

With over 30 percent of total national market system (NMS) volume now being executed off of the U.S. exchanges and with nearly half of that volume being executed by so called “dark pool” ATSS, FINRA, in consultation with the SEC, recognized the clear need for greater transparency regarding these OTC dark trading venues. To that end, in June 2014, FINRA began posting weekly on its website reported volume and trade count information for all dark pools. Market participants, investors, regulators and academics are now able to see with unprecedented granularity volume information and trends regarding dark pool trading on a security-by-security basis. FINRA is currently considering expanding the transparency initiative by publishing the remaining half of equity trading volume executed OTC by all firms on a security-by-security basis. Ultimately, the proposal would provide greater transparency to the marketplace with respect to the full range of trading activity that is currently taking place off of the U.S. exchanges, augmenting the dark pool volume that FINRA is currently making publicly available.

Dispute Resolution

FINRA operates the largest securities dispute resolution forum in the world to assist in the resolution of monetary and business disputes between and among investors, brokerage firms and individual brokers. FINRA’s Dispute Resolution program provides investors and markets with a fair, efficient and economical alternative to costly and complex court actions which are often cost-prohibitive for investors with small claims. FINRA offers both mediation and arbitration services.

Since 2011, FINRA’s program has provided investors the opportunity to select all public panels for arbitrations. The all public panel option ensures that no investor will have an arbitrator affiliated with the securities industry unless he or she voluntarily chooses one. In addition, several recent rule amendments have narrowed the definition of a public arbitrator. The most recent change establishes a bright line test that prevents anyone who has ever worked in the financial industry from serving as a public arbitrator.

FINRA’s program has several other features that distinguish it from other private arbitration forums. FINRA’s program charges significantly lower arbitration fees to investors than other forums, uses an investor-friendly discovery guide, and offers 71 hearing locations, including at least one in every state. Our Motion to Dismiss Rule ensures that investors in arbitration have a full opportunity to argue their case by limiting motions made prior to the investor resting his or her case, and provides for sanctions for frivolous motions and abusive motion practices. FINRA has the authority to suspend firms and registered representatives that fail to pay arbitration awards or agreed-upon settlements.

In July 2014, FINRA formed a Task Force to consider possible enhancements to its program to improve the effectiveness, transparency, impartiality and efficiency of FINRA’s dispute resolution forum for all participants. The Task Force will make recommendations to FINRA’s National Arbitration and Mediation Committee by December 2015, and FINRA will expedite a review of those recommendations.

Registration and Disclosure

FINRA operates and maintains the central licensing and registration system for the U.S. securities industry and its regulators. The Central Registration Depository, CRD®, developed in concept by FINRA and the North American Securities Administrators Association (NASAA), was introduced in 1981 and established a framework of uniform registration forms, one-stop form filing and fee collection, and a single regulatory database and registration processing system to meet the requirements of all participating securities regulators. CRD automates and supports the registration, qualification, disclosure and continuing education rules and regulations of FINRA, other SROs, the SEC and state regulators. Policy governing CRD is jointly established by FINRA and NASAA under SEC oversight.

FINRA's BrokerCheck® system makes available to the general public registration, licensing and disciplinary information on nearly 1.3 million current and former securities brokers and about 21,000 firms currently or formerly registered with FINRA or a national securities exchange. Implemented by FINRA in 1988, BrokerCheck allows investors to check the professional background, business practices and conduct of securities firms and investment professionals, thereby helping investors make informed choices about the individuals and firms with which they conduct business.

Investor Education

Investor education is a potent form of investor protection, and FINRA's Office of Investor Education provides an array of educational opportunities to investors. Through *finra.org*, publications and investor outreach, FINRA provides free, unbiased information and tools to help investors protect themselves and better understand the markets and basic principles of investing. Examples include FINRA BrokerCheck, the Fund Analyzer, the Risk and Scam Meters and a wide array of Investor Alerts, podcasts and online content focused on steps for choosing financial professionals, understanding different investment products, how to plan for the future, including smart 401(k) investing and saving for college, and more. FINRA also offers information for displaced workers on the financial impact of job loss, and tools for employers who want to help protect and grow their employees' retirement savings.

In 2003, FINRA established the FINRA Investor Education Foundation, which aims to provide underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. The FINRA Foundation awards education and research grants and develops targeted programs aimed at segments of the investing public that could benefit from additional resources, such as military service members and senior investors. Since inception, the FINRA Foundation has approved nearly \$100 million in financial education and investor protection initiatives through a combination of grants and targeted projects – and these efforts have led to tangible benefits for individuals and families in all parts of the country. The Foundation leverages its resources by working closely with dedicated grantees and project partners – people and organizations committed to building bridges between communities and the resources and financial education they need and want. By collaborating with others, the foundation maximizes the value of every dollar spent. Looking ahead, the Foundation aims to strengthen its partnerships through training, research and program delivery.

Consolidated Audit Trail

In July 2012, the SEC adopted Exchange Act Rule 613 requiring 19 SROs—FINRA and the 18 national securities exchanges—to work together to jointly file a NMS plan to govern the creation, implementation, and maintenance of a consolidated audit trail, or CAT, which will collect information on virtually every order and trade in equity securities and options in the United States. The CAT will be the world's largest repository of securities data, processing approximately 58 billion records on a daily basis. FINRA strongly supports the SEC's action to require the development of the CAT, an important initiative that will enhance regulators' ability to conduct surveillance of trading activity across multiple markets and perform market reconstruction and analysis. Comprehensive intermarket surveillance is essential to ensuring the overall integrity of the U.S. securities markets and maintaining the confidence of investors in those markets.

The SEC approved a NMS plan filed by the SROs establishing a formal process for the selection of the CAT Plan Processor. This plan includes multiple requirements designed to mitigate potential conflicts of interest, including those that may arise from an SRO also bidding to be the CAT Plan Processor.

FINRA, partnering with the Depository Trust and Clearing Corporation (DTCC/Kingland Systems) and using Amazon Web Services infrastructure, submitted one of the 10 bids in response to a request for proposals for the role of CAT Plan Processor. As a result, FINRA has two distinct and independent roles with respect to the development of the CAT: its role alongside the other SROs to meet their collective obligations under Rule 613, as well as party to a pending bid to serve as the CAT Plan Processor.

In addition to adhering to the requirements set out in the selection plan to mitigate potential conflicts of interest in the event an SRO was also a bidder, FINRA implemented a communications firewall, with specifically identified staff assigned to either the SRO consortium work or the bid work. The policies and procedures related to the firewall are designed to prevent the members of the SRO consortium side and the bid side from communicating with one another about non-public matters regarding the CAT. In addition, FINRA determined to abstain from all further votes involving the selection of the CAT Plan Processor as long as FINRA's bid remains under consideration by the SROs.

Conclusion

FINRA appreciates this opportunity to discuss its programs with the subcommittee. We remain committed to working closely with other regulators, this subcommittee and the full committee as we continue to work toward our dual mission of protecting investors and safeguarding market integrity.