

## RULE REMINDER NEWSLETTER

### OUTSIDE BUSINESS ACTIVITIES OF REGISTERED PERSONS FINRA Rule 3270

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registered persons and broker/dealers regarding Outside Business Activities notification and approval.

FINRA Rule 3270, Outside Business Activities of Registered Person, sets forth the requirements for registered persons and broker/dealers regarding Outside Business Activities notification, evaluation and approval. This newsletter covers the requirements and responsibilities of FINRA member firms and its registered persons regarding outside business activity participation.

In particular, the Rule requires registered persons to provide written notice of outside business activities to broker/dealers *prior to engaging in those activities*, and requires broker/dealers to evaluate the proposed activity based on specific criteria as part of the approval process. If the firm determines that the proposed activity will not be approved, the registered person must be notified of the decision in writing. Additionally, firms are required to keep records of compliance with the requirements for each written notice received.

To assist firms in evaluating each activity based on the

#### TEXT OF FINRA RULE 3270

**Outside Business Activities of Registered Persons:** "No registered person may be an employee, independent contractor, sole proprietor, officer, director or partner of another person, or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member. Passive investments and activities subject to the requirements of Rule 3280 shall be exempted from this requirement."

••• Supplementary Material: -----

.01 Obligations of Member Receiving Notice. "Upon receipt of a written notice under Rule 3270, a member shall consider whether the proposed activity will: (1) interfere with or otherwise compromise the registered person's responsibilities to the member and/or the member's customers or (2) be viewed by customers or the public as part of the member's business based upon, among other factors, the nature of the proposed activity and the manner in which it will be offered. Based on the member's review of such factors, the member must evaluate the advisability of imposing specific conditions or limitations on a registered person's outside business activity, including where circumstances warrant, prohibiting the activity. A member also must evaluate the proposed activity to determine whether the activity properly is characterized as an outside business activity or whether it should be treated as an outside securities activity subject to the requirements of Rule 3280. A member must keep a record of its compliance with these obligations with respect to each written notice received and must preserve this record for the period of time and accessibility specified in SEA Rule 17a-4(e)(1)."

criteria established by the Rule, Brokerage Consulting Group developed a one-page evaluation form that should be completed by the Compliance Officer responsible for the review and approval, and all documentation regarding this activity maintained in the registered person files. Firms are required to evaluate each outside business activity; therefore, one form should be completed for each outside business activity disclosed. In other words, if a registered person discloses three outside business activities, the Chief Compliance Officer should complete three forms for that registered person.

In addition, Brokerage Consulting Group also developed a form that registered persons may complete when they are considering a new outside business activity. This form contains the information required to be included on the Form U4 and will aid the firm in the evaluation of the requested activity.

The forms are internal documents and do not need to be returned to the registered person *unless the firm denies approval for participating in the activity*. If the activity is not approved, the firm should notify the registered person in writing of its decision.

Remember, when the firm registers a new person, an evaluation must also be conducted on each disclosed Outside Business Activity.

Please contact Brokerage Consulting Group if you have questions about Rule 3270 or the provided outside business activities disclosure and evaluation forms.