



Financial Services Compliance



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FINRA books and records requirements, including SEC rule 17A for broker dealers, SEC rule 31A-2 and 204-2 for investment advisors

Note: This white paper is intended to provide an overview and is not intended to provide legal advice. For more comprehensive information on regulations and their implications, please consult your legal counsel.

Introduction to FINRA

FINRA (the Financial Industry Regulatory Authority) rules serve as a guide for the financial industry, detailing the specific policies its members must follow and the information they need to collect, maintain, and protect.

FINRA sets industry standards mainly to protect investor and market integrity. FINRA enforces compliance by its members and their associated persons with recordkeeping rules of FINRA, including SEC books and records rules applicable to broker-dealers, the Municipal Securities Rulemaking Board ("MSRB") recordkeeping rules. These regulations aim to provide regulators and investors greater and faster access to critical information and to protect investors' and stakeholders' information and their interests.

Books and records include accounts, records, memoranda, correspondence, books, and other documentation or information that firms must make and preserve under the federal securities laws, MSRB rules, FINRA rules, and all other applicable laws, rules, and regulations. (Refer to section on records in this whitepaper for more details). Here is a summary of key requirements of a system used for saving and maintaining books and records.

1. Must be able to retrieve records quickly on demand.
2. Data must be stored on acceptable media.
3. Must maintain records in an unalterable format.
4. Must store records on unalterable media (CD or DVD) or use audit trail tracking that clearly identifies the original dates and modifications.
5. Must have reasonable controls to ensure integrity, accuracy, and reliability.
6. Must have reasonable controls to prevent and detect unauthorized creation of, additions to, alterations of, or deletion of records.
7. Must have reasonable controls to prevent and detect records deterioration.
8. Must have an indexing system to facilitate document retrieval.
9. Must be able to print copies of records when required.
10. Must have documentation on how software is set up and works.

NOTE: Neither FINRA nor the SEC certifies any software or SaaS solution as "compliant." Firms have to pick the right technology and design processes to be compliant.

FileCloud Helps You Meet FINRA Regulations

FileCloud enables organizations to run their own file share, sync, and endpoint backup solution. FileCloud was designed to accommodate government regulations, such as FINRA, HIPAA. FileCloud is a comprehensive system that can help organizations meet FINRA and SEC requirements that enforce broker-dealers and other firms to preserve records and critical documents for prescribed periods of time, preventing deletion or alteration.

FileCloud satisfies the needs of financial information for a safe, reliable, and cost-effective method of access, store, and backing up, allowing full file restoration at any time. FileCloud ensures financial information, as defined by FINRA and Sec regulation, are fully protected when accessed, transmitted, and stored.

U.S. Security Exchange Commission - SEC 17a-3 and 17a-4 Recordkeeping

Source:

http://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=d53637e812b5063f168e6986e36f0694&mc=true&r=SECTION&n=se17.4.240_117a_64

If electronic storage media is used by a member, broker, or dealer, it will comply with the following requirements:

(f) The records required to be maintained and preserved pursuant to §§240.17a-3 and 240.17a-4 may be immediately produced or reproduced on "micrographic media" (as defined in this section) or by means of "electronic storage media" (as defined in this section) that meet the conditions set forth in this paragraph and be maintained and preserved for the required time in that form.

Documents can be stored and accessible in FileCloud for as long as needed, even beyond two years.

(i) The member, broker, or dealer must notify its examining authority designated pursuant to section 17(d) of the Act (15 U.S.C. 78q(d)) prior to employing electronic storage media. If employing any electronic storage media other than optical disk technology (including CD-ROM), the member, broker, or dealer must notify its designated examining authority at least 90 days prior to employing such storage media. In either case, the member, broker, or dealer must provide its own representation or one from the storage medium vendor or other third party with appropriate expertise that the selected storage media meets the conditions set forth in this paragraph (f)(2).

FileCloud has very detailed documentation to help customers notify
<customers should try to notify its examining authority>

(ii) The electronic storage media must:

<p>A) Preserve the records exclusively in a non-rewriteable, non-erasable format;</p>	<p>Only authorized users with read/write/delete access can delete a file. Administrator manages user access control and has fine controls to limit permission at any sub-folder level.</p> <p>FileCloud can back-up the whole FileCloud installation, including files or part of the files to non-erasable storage.</p> <p>Even when users delete files, files are not purged from the system. Files can be restored from recycle bin.</p>
<p>(B) Verify automatically the quality and accuracy of the storage media recording process</p>	<p>FileCloud has built-in anti-virus and anti-ransomware checks that scan and block malicious files.</p> <p>FileCloud supports unlimited file versioning, i.e., FileCloud stores older versions of a document. Using this versioning feature, files can be reverted to older version if a file is corrupted.</p>
<p>(C) Serialize the original and, if applicable, duplicate units of storage media, and time-date for the required period of retention the information placed on such electronic storage media; and</p>	<p>All file changes are kept with an audit trail and information about who changed the file and when (timestamp) they changed it. FileCloud provides a complete audit trail of all deleted activity. Even if the file is deleted by a user, the file is not purged from the system. Files can be restored by an administrator user.</p>
<p>(D) Have the capacity to readily download indexes and records preserved on the electronic storage media to any medium acceptable under this paragraph (f) as required by the Commission or the self-regulatory organizations of which the member, broker, or dealer is a member.</p>	<p>FileCloud's export can export all the files to any destination electronic storage, including local hard disk, Storage Area Network (SAN), network attached storage (NAS).</p> <p>Customers can also provide special user access to any regulatory organization, who can take advantage of FileCloud's content search that indexes all the files and its content. Regulators not only can search with name or partial name of the file, but also using keywords in the content of the file.</p>
<p>(3) If a member, broker, or dealer uses micrographic media or electronic storage media, it shall:</p>	

<p>(i) At all times have available, for examination by the staffs of the Commission and self-regulatory organizations of which it is a member, facilities for immediate, easily readable projection or production of micrographic media or electronic storage media images and for producing easily readable images.</p>	<p>FileCloud provides multiple options to access remote data— via browser or FileCloud’s clients, such as FileCloud drive. When requested by regulatory organizations, customers can grant any of these access methods to the regulators. Regulators can view, download, print the document from resources they have access to in their office.</p> <p>FileCloud’s quick preview helps end users view many file formats (pdf, docx, xlsx etc.), even if end users don’t have the software to open documents.</p>
<p>(ii) Be ready at all times to provide, and immediately provide, any facsimile enlargement which the staffs of the Commission, any self-regulatory organization of which it is a member, or any State securities regulator having jurisdiction over the member, broker or dealer may request.</p>	
<p>(iii) Store separately from the original, a duplicate copy of the record stored on any medium acceptable under §240.17a-4 for the time required.</p>	<p>FileCloud can back-up the whole FileCloud installation, including files, file indexes, and audit trails to non-erasable storage.</p>
<p>(iv) Organize and index accurately all information maintained on both original and any duplicate storage media.</p>	<p>All files are automatically indexed and are searchable, using keywords, partial file names.</p>
<p>(A) At all times, a member, broker, or dealer must be able to have such indexes available for examination by the staffs of the Commission and the self- regulatory organizations of which the broker or dealer is a member.</p>	<p>Customers can provide secure access to their files in FileCloud to any entity. FileCloud allows role based access, using which FileCloud created administrator-like users for regulators, who can securely access all user files specific username and password.</p>
<p>(B) Each index must be duplicated and the duplicate copies must be stored separately from the original copy of each index.</p>	<p>FileCloud can back-up the whole FileCloud installation, including files, file indexes, and audit trails to non-erasable storage. Backup can be set up in a remote server within premise or in any 3rd party cloud service.</p> <p>FileCloud's “High Availability” (HA) architecture helps customers to build redundancy across all layers of its infrastructure, ensuring strong protection against losing access to the records.</p>
<p>(C) Original and duplicate indexes must be preserved for the time required for the indexed records.</p>	

<p>(v) The member, broker, or dealer must have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved pursuant to §§240.17a-3 and 240.17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby.</p>	<p>All file changes are kept with an audit trail and information about who changed the file and when (timestamp) they changed it. Audit logs can be searched, based on keywords or by user giving administrators right tools to quickly triage. Unlimited version helps users and administrators revert to older version if any file is corrupted or regulators want to view an older version.</p>
<p>(A) At all times, a member, broker, or dealer must be able to have the results of such audit system available for examination by the staffs of the Commission and the self-regulatory organizations of which the broker or dealer is a member.</p>	<p>Customers can provide secure access to their files in FileCloud to any entity. FileCloud allows role based access, using which FileCloud created administrator-like users for regulators, who can securely access all user files specific username and password.</p>
<p>(B) The audit results must be preserved for the time required for the audited records.</p>	<p>All file changes are kept with an audit trail and information about who changed the file and when (timestamp) they changed it. Audit logs can be searched based on keywords or by user giving administrators right tools to quickly triage.</p>
<p>(vi) The member, broker, or dealer must maintain, keep current, and provide promptly upon request by the staffs of the Commission or the self-regulatory organizations of which the member, broker, or broker-dealer is a member all information necessary to access records and indexes stored on the electronic storage media; or place in escrow and keep current a copy of the physical and logical file format of the electronic storage media, the field format of all different information types written on the electronic storage media and the source code, together with the appropriate documentation and information necessary to access records and indexes.</p>	<p>FileCloud's export can export all the files to any destination electronic storage, including local hard disk, Storage Area Network (SAN), network attached storage (NAS).</p>

U.S. Security Exchange Commission - SEC Rule 31a-2 and 204-2 Investment Companies and Investment Advisor

Source: <https://www.sec.gov/rules/proposed/ic-24890.htm>

Electronic storage media, including any digital storage medium or system that meets the terms of this section. (2) *General requirements.* The investment company, or person that maintains and preserves records on its behalf, must:

(i) Arrange and index the records in a way that permits easy location, access, and retrieval of any particular record;

FileCloud UI provides simple way to access files, sorted by file name or date. FileCloud's content search indexes all the files and its content. Users can search not only using file name or partial file names, but also using keywords in the content of the file.

(ii) Provide promptly (but in no case more than one business day after the request) any of the following that the Commission (by its examiners or other representatives) or the directors of the company may request:

(A) A legible, true, and complete copy of the record (or the information necessary to generate the record) in the medium and format in which it is stored;

(B) A legible, true, and complete printout of the record; and

(C) Means to access, search, view, sort, and print the records; and

FileCloud serverlink, customers can replicate the whole FileCloud installation, including files, file indexes, and audit trails in a remote server within premise or in any 3rd party cloud service. Customers can give access to the replicated instance to regulators.

FileCloud's quick edit opens many document formats, even if the end users don't have software.

(iii) Separately store, for the time required for preservation of the original record, a duplicate copy of the record stored on the micrographic or electronic storage media or any medium allowed by this rule.

FileCloud can back-up the whole FileCloud installation, including files, file indexes, and audit trails to non-erasable storage. Backup can be set up in a remote server within premise or in any 3rd party cloud service, and data can be maintained as long as needed.

<p>(3) Special requirements for electronic storage media. In the case of records on electronic storage media, the investment company, or person that maintains and preserves records on its behalf, must establish and maintain procedures:</p>	
<p>(i) To maintain and preserve the records, so as to reasonably safeguard them from loss, alteration, or destruction;</p>	<p>FileCloud has built-in anti-virus and anti-ransomware checks that scan and block any malicious files. FileCloud backup can be configured to backup main file system to a backup storage.</p>
<p>(ii) To limit access to the records to properly authorized personnel, the directors of the investment company, and the Commission (including its examiners and other representatives);</p>	<p>Using FileCloud, organizations can provide secure access to their files to any entity. FileCloud supports simple username/password to more secured two factor authentication. All data exchanges through web are encrypted using SSL, a standard security technology for encrypting data transmission. FileCloud ensures financial information is fully encrypted with advanced AES 256 encryption when transmitted and stored.</p>
<p>(iii) To reasonably ensure that any reproduction of a non-electronic original record on electronic storage media is complete, true, and legible when retrieved.</p>	<p>FileCloud provides web-based viewer for all common file types. This allows users to read files, even if they don't have client document application on their computer. FileCloud supports unlimited file versioning, i.e., FileCloud stores older versions of a document. Using this versioning feature, files can be reverted to older version if a file is corrupted.</p>

Electronic Recordkeeping by Investment Companies and Investment Advisers

SECURITIES AND EXCHANGE COMMISSION 17 CFR Parts 270 and 275

Source: <https://www.sec.gov/rules/proposed/ic-24890.htm>

Rules 31a-2 and 204-2 have been deliberately crafted to be technologically neutral, leaving funds and advisers free to adopt any combination of technological and manual protocols that meet the rules.

APPENDIX: Types of Office Records and Corresponding Retention Policy

Description	Record retention period
Memoranda of Brokerage Orders and Dealer Transactions <i>Rule 17a-3</i>	
Each brokerage order ticket must be retained, including the terms and conditions of the transaction, time stamp of the order, any modifications or cancellations, account numbers, associated persons and a code for the terminal if the customer entered the order electronically.	Three years First two years in an easily accessible location.
Associated Person Location and Identification Number Records <i>Rule 17a-3(a)(12)(ii)</i>	
Firm must make records relating to associated persons of the firm, including information regarding the associated person's employment and disciplinary history. Record should include every office where each associated person regularly conducts business, and all internal identification numbers and the CRD number assigned to each associated person.	Three years after the associated person has terminated employment and all connections with the firm.
Customer Account Records <i>17a-3(a)(17)(i)(A)</i>	
Following information must be maintained in record form for each account associated with a natural person (not businesses): Name, tax identification number, address, telephone number(s), date of birth, employment status, annual income, net worth (excluding value of a primary residence), account investment objectives, signature verifying account information, if a discretionary account, a dated signature of each customer or owner granting authority, a dated signature of each person to whom, discretionary authority was granted)	Six years after the account is closed or from the date information was replaced or updated (whichever is earlier).
Complaints <i>Rule 17a-3(a)(18)(i)</i>	

<p>Requires firms to make a record as to each associated person that includes every written customer complaint received by the firm concerning that associated person. It must contain the complainant's name, address, and account number; the date the complaint was received; the name of any other associated person identified in the complaint; a description of the nature of the complaint; and the disposition of the complaint</p>	<p>Three years, the first two years in an easily accessible place.</p>
<p>Compensation <i>Source: Rule 17a-3(a)(19)</i></p>	
<p>Make a record of each purchase and sale of a security attributable, for compensation purposes, to an associated person. Records have to include all commissions, concessions, overrides, and other compensation to the extent they are earned or accrued for transactions. In addition, if the compensation is non-monetary, that description should include an estimate of its value.</p>	<p>Three years after the associated person has terminated employment and all other connections with the firm.</p>
<p>Communications <i>Source: Rule 17a-3(a)(20)</i></p>	
<p>Each firm to make a record documenting that the firm has complied with, or adopted policies and procedures reasonably designed to establish compliance with, applicable federal regulations and SRO rules which require that a principal approve any advertisements, sales literature, or other communications with the public. This paragraph would apply to marketing materials, sales scripts, and other paper or electronic material, such as audio or video tapes, used by broker-dealers in communicating with the public.</p>	<p>Three years, the first two years in an easily accessible place.</p>
<p>Persons to Explain Records <i>Rule 17a-3(a)(21)</i></p>	
<p>Each office must keep a record of all individuals (by name and title) who can speedily explain the types of records the firm maintains at that office, and the information contained in those records.</p>	<p>Record retention period: Six years, the first two years in an easily accessible place.</p>
<p>Record Listing Principals of the Firm <i>Rule 17a-3(a)(22)</i></p>	
<p>Each firms must maintain a record of each principal responsible for establishing policies and procedures that ensure compliance with applicable federal requirements or standards set by self-regulatory organizations. (<i>term "principal" to include any individual registered national securities association as a principal or branch manager of a member, broker or dealer, or any person with supervisory responsibility</i>)</p>	<p>Six years, the first two years in an easily accessible place.</p>

Office Records <i>17a-3(g), 17a-3(h), 17a-4(k)</i>	
Each firm must create and maintain certain books and records specific to each of its offices. That includes all records listed above and any additional reports required by FINRA or the SEC.	Record retention period: For the most recent two year period.
Complaints <i>Rule 17a-3(a)(18)(i)</i>	
Requires firms to make a record as to each associated person that includes every written customer complaint received by the firm concerning that associated person. It must contain the complainant's name, address, and account number; the date the complaint was received; the name of any other associated person identified in the complaint; a description of the nature of the complaint; and the disposition of the complaint	Three years, the first two years in an easily accessible place.
Organizational Documents <i>Rule 17a-4(d)</i>	
Preserve all partnership articles or, in the case of a corporation, all articles of incorporation or charter, minute books and stock certificate books , all records such as articles of organization or formation, and minute books used for a purpose similar to those records required for corporations or partnerships all Forms BD, all Forms BDW	Life of the enterprise and of any successor company.
Special Reports <i>Rule 17a-4(d)</i>	
Each financial firm must preserve all report a securities regulatory authority requests or requires them to create and submit. Special reports would include those reports that are requested or required under an order or settlement.	Three years after the date of the report.
Compliance, Supervisory & Procedures Manuals <i>Rule 17a-4(d)</i>	
Each company must retain all compliance, supervisory, and procedures manuals— including any updates, modifications and revisions.	Three years after the termination of use of manual.
Exception Reports <i>Rule 17a-4(e)(8)</i>	

Requires firms to maintain copies of reports produced to review for unusual activity in customer accounts. Exception reports would include reports that identify exceptional numerical occurrences, such as frequent trading in customer accounts, unusually high commissions, or an unusually high number of trade corrections or cancelled transactions.

Eighteen months after the date the report was generated.



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