

Corporate & Financial Weekly Digest

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FINRA Clarifies Obligations and Supervisory Responsibilities for Functions Outsourced to Third-Party Service Providers

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The Financial Industry Regulatory Authority is requesting comment on a proposed new rule clarifying the scope of a member firm's obligations and supervisory responsibilities for functions or activities outsourced to a third-party service provider. According to FINRA, new Rule 3190 (Use of Third-Party Service Providers) addresses continued requests from its member firms for FINRA to identify specific functions that a clearing or carrying member firm may outsource to a third-party service provider and the appropriateness of any member firm outsourcing activities to a third-party service provider that is not registered as a broker-dealer.

Proposed Rule 3190 makes clear that outsourcing functions of a broker-dealer to a third-party service provider does not relieve the member firm of its obligation to comply with applicable securities laws and regulations. Moreover, a member firm cannot delegate its responsibilities for, or control over, any outsourced functions.

The proposed rules also require that a member firm maintain supervisory procedures, including due diligence measures, "reasonably designed" to ensure that third-party service provider arrangements achieve compliance with applicable securities laws and regulations. There are additional restrictions and obligations contained in the proposed rule that apply solely to clearing and carrying member firms and third-party service provider arrangements. Comments on Proposed Rule 3190 are due by May 13.

Click [here](#) to read Regulatory Notice 11-14, issued by FINRA in March.

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