

FINRA Proposes to Ease Restrictions on Initial Equity Public Offerings and New Issues

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The Financial Industry Regulatory Authority (FINRA) is proposing to amend its Rule 5130 and Rule 5131 to ease certain restrictions on initial equity public offerings and new issue allocations and distributions.

FINRA Rules 5130 and 5131 are designed to protect the integrity of the public offering process by, among other things, generally prohibiting FINRA members from selling a new issue to an account in which a “restricted person” has a beneficial interest in order to ensure that industry insiders, including members and their associated persons, do not take advantage of their insider position to purchase new issues for their own benefit at the expense of public customers. FINRA has proposed amending the Rules to remove certain impediments to capital formation deemed unnecessary to protect investors to address the impact of the rules on family offices, sovereign entities, foreign employee retirement benefits plans, foreign investment companies and executive officers and directors of charitable organizations.

If adopted, the proposal would amend Rule 5130 to exempt foreign employee retirement benefits plans, exclude sovereign entities that own broker-dealers from the categories of restricted persons, and broaden the scope of “family investment vehicle” under the rule.

In addition, the proposal would amend Rules 5130 and 5131 to exclude from the definition of “new issue” offerings that are conducted pursuant to Regulation S under the Securities Act of 1933 and other offerings outside of the United States and its territories. The proposal also would amend Rule 5131 to exclude unaffiliated charitable organizations from the definition of “covered non-public company.”

The proposal also would make certain additional minor amendments to Rules 5130 and 5131 to make the rules more consistent.

FINRA’s proposal is available [here](#).

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