

SEC Approves Rule Requiring Delivery of an Educational Communication to Customers of a Transferring Representative

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The Financial Industry Regulatory Authority recently released Regulatory Notice 16-18, which describes the newly adopted FINRA Rule 2273 (Rule). The Rule requires a firm that hires or associates with a registered representative to provide former customers of the representative an educational communication prepared by FINRA (“Communication”) when: (x) the firm, directly or through a representative, contacts such former customers individually to transfer assets to the firm, which includes (i) informing the former customer that he is now associated with the new firm, (ii) informing the former customer that the new firm may offer better or different products and services, or (iii) sending a mass mailing of information about the new firm to former customers; or (y) such former customer, without being individually contacted, transfers his assets to the representative at the firm.

The Communication includes information regarding the implications of transferring assets to the new firm, including: (i) potential conflicts of interest; (ii) that some assets may not be directly transferrable to the firm and such transfer may result in costs to liquidate and move those assets; and (iii) the differences in products and services between the customer’s current firm and the new firm. The Rule requires the Communication to be delivered at the time of the first individualized contact with the former customer regarding his transfer of assets to the new firm.

The Rule becomes effective November 11.

More information about the Rule is available [here](#).

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