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Capital Acquisition Brokers: Regulation and Registration

In 2016 the U.S. Securities and Exchange Commission (SEC) approved the Financial Industry Regulatory Authority (FINRA) Rules relating to capital acquisition brokers (CABs). These FINRA rules replaced the rules for limited corporate financing brokers that were proposed by FINRA in 2014. The goal of FINRA rules governing CABs is to give an opportunity for companies that do not act as real brokers and do not provide many activities of traditional brokers, to work according to special legal framework for capital acquisition brokers. Thus, CAB is a new type of brokers, which was created this year.

A CAB is a firm solely engaged in advising companies on mergers and acquisitions, advising issuers on raising debt and equity capital in private placements with institutional investors, or providing advisory services on a consulting basis to companies that need assistance analysing their strategic and financial alternatives.

There exist a lot of activities that are prohibited for CABs, for example CABs may not participate in secondary market transactions and purchase/sell securities on behalf of customers. CABs do not deal with handling securities of customers and they are not engaged in managing customer accounts. CABs may deal only with institutional investors, however they may act as agents in a very limited number of situations.

Therefore, a CAB may act as a placement agent or finder on behalf of an issuer with regard to sales of newly issued, unregistered securities to institutional investors or on behalf of an issuer or control person in connection with a change of control of a private firm.

CABs are regulated by a special set of rules called CAB rules. A business continuity plan is not required and CABs are not regulated by FINRA rules relating to commissions, charges, the annual compliance meeting, and internal inspections. In addition, they have limited requirements relating to customer contact.

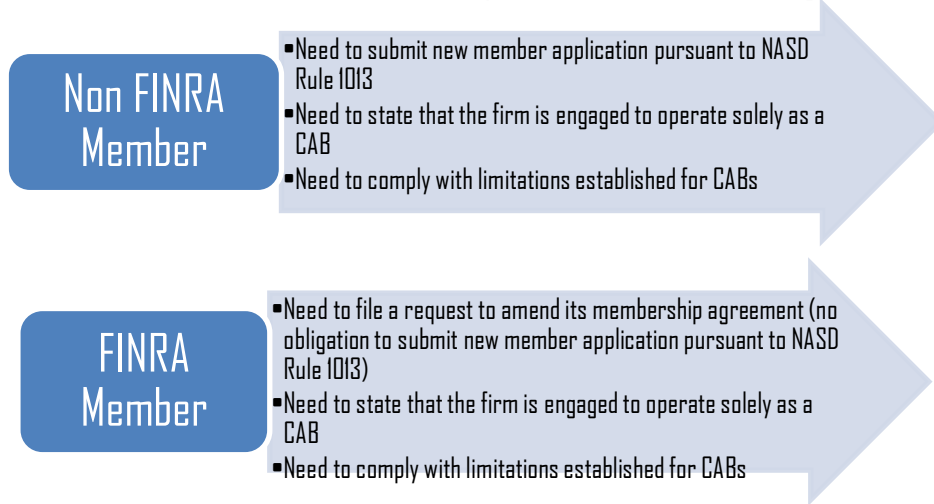
Nevertheless, CABs also have to meet some general FINRA rules, for example anti-money laundering requirements, suitability and antifraud rules.

CABs follow the same registration procedure as full-service brokers. In addition, the representatives and principals of a company have to follow the same examination and registration as representatives and principals of other FINRA members.



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However, there exist a certain number of special conditions for the registration of CABs:



Therefore, this category of brokers has less strict financial, operational, information, documentation and other requirements than full-service brokers.