



NASAA

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**By Email ([pubcom@finra.org](mailto:pubcom@finra.org))**

Ms. Marcia E. Asquith  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

**Re: FINRA Rule Proposal 13-02  
Request for Comment on Recruitment Compensation Practices**

Dear Ms. Asquith:

On behalf of the North American Securities Administrators Association (NASAA)<sup>1</sup>, I am submitting this comment letter regarding the Financial Industry Regulatory Authority's (FINRA) rule proposal requiring disclosure of potential conflicts of interest related to recruitment compensation practices for registered representatives. NASAA appreciates the opportunity to express its preliminary views on this matter.

NASAA believes that disclosure of enhanced compensation for brokers is a good idea, particularly when such compensation is based on future sales performance. It is unquestionable that conflicts of interest can arise between the benefits to a broker from enhanced compensation packages and the duties of a broker to her customers. NASAA does not limit its identification of and concern about these potential conflicts only to situations when registered persons are being paid enhanced compensation to change employers. These conflicts can also exist when brokers are paid retention bonuses to remain at their firms.

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<sup>1</sup> NASAA is the association of all state, provincial, and territorial securities regulators in North America. Its membership consists of the securities regulators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico. Their core mission is protecting investors from fraud and abuse in the offer and sale of securities. Organized in 1919, NASAA is the oldest international organization devoted to investor protection.

NASAA believes the usefulness of this rule will depend on the specificity of the written<sup>2</sup> disclosures made to customers about enhanced broker compensation. If description of compensation programs is vague, the rule is going to be ineffective. The disclosure to customers must include the actual dollar figures (and the timing of such payment(s) which are being paid to brokers for trading and/or for retaining or moving customer accounts and assets. Moreover, the disclosure needs to be timely, occurring at a point when investors can make thoughtful and commercially meaningful decisions about whether to engage in particular transactions or whether to change firms with their brokers. Vague reference to percentage payouts made to brokers (which fail to provide fair and balanced context) or generalized language concerning the enhanced compensation will not be an effective disclosure to customers of the potential conflicts created by such compensation packages. This is a dark corner of industry practices, and we will support FINRA efforts to bring transparency to this realm.

NASAA further suggests that while this rule proposal brings to light particular industry compensation practices, the rule proposal also should provide for specific, enhanced supervisory practices which firms will employ to monitor and prevent possible account churning and excessive trading of accounts brought to a new firm during the first year(s) of the recruited brokers' employment transition.

In close, NASAA believes that effective disclosure of enhanced compensation will benefit consumers and we applaud FINRA's efforts to bring this practice into the light. Notwithstanding, in doing so, NASAA does not condone the current practices regarding compensation practices within the industry.

On Behalf of NASAA:



A. Heath Abshure  
NASAA President  
Arkansas Securities Commissioner

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<sup>2</sup> NASAA does not condone oral disclosures in relation to recruitment compensation issues. Oral disclosures are not beneficial to any party in terms of the ability to measure or monitor regulatory practices.