Ryan Valentin
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To: NASAA, Theresa Leets, Chair of the Project Group, and Bill Beatty and Erin Houston, Co-chairs of the Section.

Comments on the Proposed the North American Securities Administrators Association, Inc. ("NASAA") Model Broker Registration Act (the "Model Act")

Dear NASAA Regulators,

As a recent law school graduate and a corporate paralegal with several years of experience in the franchise industry, I have had the opportunity to work closely with both franchise brokers and franchisors. In my role, I have interacted with hundreds of professionals across both sides of the industry and gained an appreciation for the interests, challenges, and practical realities each faces. While I do not have a direct personal or financial stake in the outcome of this proposal, my experience positions me to understand and articulate the perspectives involved. In this brief letter, I wish to address key concerns raised by the model act and offer a few practical solutions.

To begin, it is important to recognize the genuine need for higher standards in franchise brokering. Brokers often serve as the initial bridge between franchisors and prospective franchisees, and their conduct can shape not only individual investment decisions but also the overall credibility of the franchise industry.

However, the Model Act appears to conflate the role of franchise brokers with that of a very different category of industry participant. Within the franchise sector, two distinct actors exist that, while superficially similar, serve fundamentally different functions: franchise sales organizations ("FSOs") and independent franchise brokers. The Model Act defines "franchise broker" in a manner that encompasses both, despite the clear distinctions between them. These groups should be separately defined, as their roles in the transaction process differ significantly. FSOs typically exercise greater authority over the deal, maintain closer interaction with franchise candidates, and are often directly involved in shaping the franchisor's marketing materials and Franchise Disclosure Document (FDD), whereas independent brokers operate with more limited functions.

I recommend that the Model Act include an exemption to the definition of "franchise broker representative," similar to the exemptions already provided for the definition of "franchise broker." Specifically, the exemption should clarify that the term "franchise broker representative" does not include an independent franchise broker. A separate definition should then be added for "independent franchise broker," which would accurately describe participants who have minimal authority over the transaction, no role in developing franchise marketing materials, and limited interaction with prospective franchisees. In essence, the definition should

capture the reality that independent franchise brokers function primarily as recruiters for franchisors, rather than as active participants in the substantive deal process.

Another significant concern with the Model Act is the administrative burden that would likely arise if multiple states adopt its provisions, and especially if a majority do so. Each state could implement its own distinct registration, licensing, and educational requirements, creating a complex and potentially duplicative regulatory landscape for franchise brokers who operate across state lines. A practical approach to interstate franchise broker regulation is to model reciprocity after the system used in the legal profession. Under "admission on motion" rules, attorneys already licensed in one state can gain full practice rights in another state without taking a new bar exam, typically by completing a streamlined registration process and meeting basic eligibility requirements. Applying a similar framework to franchise brokering would allow brokers already licensed or registered in one state to operate in other states with minimal additional filings, rather than undergoing duplicative registration, licensing, and educational requirements in each jurisdiction. Such a reciprocity provision would recognize the inherently cross-border nature of franchise brokerage, reduce administrative burdens, and maintain consumer protections by ensuring brokers meet consistent standards across states.

In summary, while the Model Act seeks to promote ethical practices in franchise brokering, several provisions raise practical concerns. The Act conflates independent franchise brokers with franchise sales organizations, creating ambiguity in roles and responsibilities, and lacks clear definitions to address this distinction. Additionally, without a reciprocity framework, brokers could face duplicative registration, licensing, and educational requirements across multiple states, imposing significant administrative burdens. Adopting clear definitions and a reciprocity model would help align the Act with industry realities while maintaining consistent consumer protections.

Warm Regards,
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Corporate Paralegal