



VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS
AND INDEPENDENT FINANCIAL ADVISORS

VIA ELECTRONIC MAIL

July 27, 2015

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

Re: **Regulatory Notice 15-20: Qualification Examinations Restructuring**

Dear Ms. Asquith:

On May 27, 2015, the Financial Industry Regulatory Authority (FINRA) published its request for public comment on a concept release to restructure the representative-level qualifying examination program (Concept Release).¹ The restructured program would require all representative-level associated persons to take a Securities Industry Essentials Examination (SIE) and the specialized knowledge examination appropriate for their particular job function. FINRA would eliminate the duplicative testing of general securities knowledge on the various specialized knowledge examinations.

The Financial Services Institute² (FSI) appreciates the opportunity to comment on this important proposal. FSI supports the approach proposed by FINRA in the Concept Release. We believe the proposed changes will increase the efficiency of the examination program and reduce burdens on firms through the elimination of unnecessary or duplicative examinations. We look forward to continuing a dialogue with FINRA as it refines its proposal.

Background on FSI Members

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the U.S., there are approximately 167,000 independent financial advisors, which account for approximately 64.5% percent of all producing registered representatives. These financial advisors are self-employed independent contractors, rather than employees of Independent Broker-Dealers (IBD).

FSI member firms provide business support to financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions.

¹ FINRA Regulatory Notice 15-20 (May 27, 2015) available at http://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-20.pdf.

² The Financial Services Institute (FSI) is an advocacy association comprised of members from the independent financial services industry, and is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has been working to create a healthier regulatory environment for these members so they can provide affordable, objective financial advice to hard-working Main Street Americans.

Independent financial advisors are small-business owners who typically have strong ties to their communities and know their clients personally. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations and retirement plans with financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide middle-class Americans with the financial advice, products, and services necessary to achieve their investment goals.

Discussion

FSI supports FINRA's approach and appreciates the opportunity to comment on the Concept Release. We commend FINRA for undertaking a review of its existing examination system and for choosing to initially propose potential solutions through a Concept Release. We encourage FINRA to take similar steps to review the principal-level examination program. Below we highlight several additional points that we recommend FINRA consider as it advances the amendments proposed in the Concept Release. We stand ready to assist FINRA in addressing these considerations and furthering this proposal.

I. Additional Considerations

A. Content

Along with the Concept Release, FINRA released a draft SIE Content Outline that lists the various concepts and rules that would be tested on the SIE. FINRA states that the SIE is to be a general examination covering fundamental securities industry knowledge. While we believe that a basic awareness of regulations governing certain issues included in the SIE Content Outline might be appropriate for a general knowledge exam, the specific details of several of these rules and regulations would be better suited for a specialized examination. For example, we recommend that the SIE not test the specific details of rules governing things such as net capital, margin, hypothecation of customer securities, and order and quotation display. We respectfully request that FINRA clarify that the SIE will not require an understanding of the specific details of rules that are better suited for testing on a specialized knowledge examination.

B. Eligibility to Take the SIE

In the Concept Release, FINRA proposes to permit individuals not associated with a FINRA member to sit for the SIE. FINRA explains "that expanding who is eligible to take an examination will enable prospective securities industry professionals to demonstrate to prospective employers a basic level of knowledge prior to a job application."³ FINRA also clarifies that non-associated persons taking the SIE would be subject to the Rules of Conduct and waiting period for retaking a failed exam.

We understand FINRA's intention in authorizing non-associated persons to sit for the SIE, but we believe it is important to note that this could raise investor protection concerns. Allowing these individuals to take the SIE may result in certain bad actors seeking to use the SIE as a vehicle to defraud unsuspecting investors. We are certain FINRA has considered this risk and is putting

³ Regulatory Notice 15-20, *supra* note 1, at 6.

appropriate controls in place. We suggest that one way FINRA could address this issue is to develop a surveillance system to ensure that those individuals who pass the SIE do not hold themselves out as licensed representatives prior to association with a member firm and successfully taking a specialized knowledge exam. We believe it is vitally important to ensure the integrity of these licensed professions and ensure that no amendments increase the ability of bad actors to mislead investors.

C. Fees

In the Concept Release, FINRA states that it will “conduct a pricing analysis to determine a fair and reasonable cost for the SIE.”⁴ In conducting such an analysis FSI suggests that FINRA consider the potential for the SIE to serve as a barrier to entry into the financial services industry. If passing the SIE prior to being hired will become a requirement for employment in the securities industry, we wish to note that imposing a high fee for the exam may have the unintended consequence of making securities industry employment cost-prohibitive for some interested and capable individuals. This is acutely important as firms look to recruit the next generation of financial advisors and ensure that they institute succession plans designed to ensure their clients maintain access to professional financial expertise after their current advisor retires. We encourage FINRA to consider this potentiality in conducting its pricing analysis and ensure the accessibility of financial services industry employment.

D. Operational and Implementation Considerations

FINRA states in the Concept Release that an individual “would be able to schedule both the SIE and specialized knowledge examinations for the same day.”⁵ FSI believes this raises an important operational question concerning the situation of an individual that is scheduled to take both the SIE and a specialized examination on the same day, but does not pass the SIE. We recommend creating a mechanism that would allow such an individual to withdraw from sitting for, and avoid the cost of, the specialized knowledge examination. We encourage FINRA to engage in a dialogue as it seeks to clarify this issue.

FSI also wishes to point out that the restructuring of the examination program proposed in the Concept Release will require alterations to several internal systems, such as a trade approval system. These system changes will require both firm resources and coordination with clearing firm partners. We request that FINRA consider these required system alterations in proposing an implementation period that allows firms to account for these required projects.

⁴ *Id.* at 14.


⁵ *Id.*

Conclusion

We appreciate the opportunity to provide these comments to FINRA and we reiterate our support for the amendments proposed in the Concept Release. We are committed to constructive engagement in the regulatory process and welcome the opportunity to work with FINRA on this and other important regulatory efforts

Thank you for considering FSI's comments. Should you have any questions, please contact me at (202) 803-6061.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. T. Bellaire". The signature is fluid and cursive, with a large initial "D" and "T" followed by "Bellaire".

David T. Bellaire, Esq.
Executive Vice President & General Counsel