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December 12, 2010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Ms. Murphy,

Subject: SEC Study under Section 914 of the Dodd-Frank Wall Street Reform and Consumer Protection Act

We appreciate the opportunity to comment as the Commission studies the need for enhanced examination and enforcement resources for RIAs.

Executive Summary: We recommend against use of an SRO for RIAs. Even if an SRO is deemed desirable, however, FINRA seems like a spectacularly poor choice.

A Self-Regulatory Organization has a built-in Conflict of Interest

One of the solutions being proposed in the press for increased regulatory examination frequency is having RIAs be regulated by an SRO. The "self" in "self-regulatory organization" is *prima facie* evidence of a built-in bias/conflict-of-interest, which suggests that it might be more effective at protecting and promoting the interests of its members than it would be at protecting the interests of the consumer and the public at large. This suggests that a pure governmental regulator would be more effective in protecting the public than an SRO.

An SRO would add an extra layer of costs

An SRO would increase the costs of regulating and monitoring RIAs. There is no way around the fact that this additional layer of regulation would need to be funded somehow. Presumedly, it would be self-funded. This self-funding would be an enormous financial burden on smaller RIA companies (e.g., my company is a one-person company). Dramatically increasing the cost of regulation by adding an additional layer of regulation seems imprudent when it also adds an enormous additional cost AND would be expected to protect the public less well than the existing governmental paradigm (i.e., which doesn't have the inherent conflict-of-interest).

FINRA isn't necessarily an appropriate regulator just because its name suggests that it is

NASD has been self-regulating itself for some time. Its SRO was known as NASDR until it recently changed its name to FINRA. This name change appeared to be an obvious attempt to increase its scope of authority. FINRA is now explicitly lobbying for that increase in scope. Just because its new name suggests that it is an appropriate SRO for RIAs doesn't mean that is so.

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NASDR/FINRA has become famous for its failure to protect the public from predatory sales practices of its members. Its "rules-based" culture is designed to provide a safe-harbor for member firms whose job it is to sell financial products to the public. Accordingly, the public is not protected, but the industry has the security of knowing that, if it crosses its "t" and dots its "i", then it will not get in trouble for foisting its expensive products on an unsuspecting, unsophisticated, ill-informed, and generally naive public.

FINRA's "rules-based" culture (i.e., designed to provide a safe-harbor for salespersons) seems inappropriate for the "principles-based" law which applies to investment advisers (i.e., which is designed to protect the public). The public needs and deserves a "safe-harbor" which protects them, rather than a "safe-harbor" which protects those whose job it is to exploit them. Given its history and its culture, it is difficult to imagine FINRA "changing its stripes" adequately to justify assigning them a primary role in protecting the public interest -- moreso than they already have. If anything, their role should perhaps be diminished, given their lack of success (and lack of interest) in truly protecting the public from abusive sales practices of its members.

If you have any questions whatsoever about anything, feel free to contact us.

Sincerely,

Eric E. Haas, MBA, MS
Member
Altruist Financial Advisors LLC