



April 18, 2014

SENT VIA ELECTRONIC CORRESPONDENCE

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

Re: File Number SR-FINRA-2014-010-Proposed Rule Change to Adopt FINRA Rule 2243

Dear Ms. Murphy:

Thank you for the opportunity to comment upon Financial Industry Regulatory Authority's (FINRA) March 10, 2014 proposed rule change to adopt FINRA Rule 2243. Cambridge Investment Research, Inc. ("Cambridge" or "the firm") is an independent, privately owned broker-dealer located in Fairfield, Iowa. Cambridge has over 2,500 independent registered representatives throughout the country.

Cambridge supports regulatory efforts that seek to protect investors and provide meaningful disclosure to customers. The firm understands FINRA's apprehension with respect to recruitment compensation and material conflicts of interest. Cambridge's concerns with the proposed rule are outlined below. It is the firm's opinion that the proposed rule needs further revision and clarification.

Conflict of Interest Assumption

The proposal incorrectly assumes that a recruitment compensation payment automatically leads to a conflict of interest. The rule implies that the more recruitment compensation that a representative receives, the greater the conflict of interest. Recruitment compensation does not automatically incentivize representatives to put their interests ahead of their clients. Transition compensation is offered for a variety of reasons. Firms often provide transition compensation to cover the direct and indirect costs a representative will incur as part of the transition. These costs may include lost revenue, office space rent, stationary and signage changes, and the hiring of temporary staff to assist in the transition. Firms may also use recruitment compensation to assist a representative taking over the business of a retiring representative as part of a succession plan. The compensation disclosure form does not take into account the various reasons that a representative may receive recruitment compensation.

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Therefore, the firm believes the compensation disclosure requirement does not provide the necessary context for clients to determine whether a conflict of interest actually exists. The disclosure does not distinguish between the different types of recruitment compensation a representative may receive. As a result, Cambridge objects to the client disclosure requirement.

Finally, it should be noted that continuity of service is incredibly important to registered representatives and their clients. When a representative transitions between firms, it is essential that the representative has the opportunity to continue to serve his or her clients. Continuity of service is in the client's best interest during a transition phase. The rule fails to consider the critical importance of continuity of service to the client because it imparts a major operational hurdle for transitioning representatives to deliver a disclosure within a short period of time and it also invites client anxiety and distrust by assuming a conflict exists that is detrimental to the client. FINRA should consider that an unintended consequence of this rule could be that transitioning representatives simply abandon clients when moving to a new firm, thereby severing continuity of service to the vary clients FINRA is trying to protect.

Anti-Competitive

The rule proposal is not business neutral and is likely to have a disproportionately negative impact on numerous firms and representatives who are looking to join a new firm. For example, the rule may make it more difficult for firms to recruit representatives from other firms based on differences in their size, resources and business models. Additionally, representatives who have established successful, independent business models that service a larger number of clients, comprise a large number of associated representatives or service a large number of assets, will be disproportionately impacted by this rule merely because of the size and success of their practice and business models. As a result, competition amongst firms will likely decrease, quality, successful representatives will have fewer opportunities to associate with new firms that are a better fit for their practices, and clients will be negatively impacted because their representatives may be forced to stay with their current firm even though it is not in the best interests of their clients.

In addition, the disclosure and reporting requirements create a disincentive for a representative to change firms, even when doing so is in the best interest of his or her clients. Representatives will likely view the required disclosure as a violation of their privacy, akin to publishing their gross income in the newspaper or on a billboard with no explanation of the costs and expenses incurred by the representatives to run their independent businesses. This will further incentivize representatives to remain at their



current firm, even if doing so is not in the best interest of the representatives or their clients.

The rule is also problematic because it requires certain compensation disclosure for payments that do not inherently create a conflict of interest, such as transition assistance. However, the rule fails to include others types of compensation unrelated to recruitment that may create a conflict, such as retention bonuses or payments by the existing firm to disincentivize representatives from leaving and joining a new firm. If the intent of the rule is to properly disclose conflicts of interest, there seems to be little difference between recruiting compensation and retention bonuses or payments. The proposed rule, as written, encourages firms to pay retention bonuses and other types of increased compensation to retain representatives without a client disclosure requirement. If FINRA perceives recruiting compensation as creating similar conflicts of interest as retention bonuses or payments, the question then becomes where would the disclosure requirement stop? Cambridge believes there are many issues that need to be further evaluated by FINRA before implementing the proposed rule.

Request for Clarification

Cambridge believes that significant clarification is needed prior to implementation of the proposed rule. If the rule is passed and client disclosure is a necessary component, additional clarification is necessary to ensure that firms and representatives are correctly and uniformly calculating costs and compensation. Specific instruction and guidance concerning the exact definition of recruitment compensation should be provided. We also request FINRA to clarify whether costs to representatives, such as the loss of revenue when transitioning, overtime and bonuses paid to representatives' employees, or the cost of temporary staff, are to be included in this calculation. In addition, FINRA should provide clarity with respect to the definition of "increased costs incurred directly" that may be netted out of the compensation calculation and provide a list of such items FINRA believes fall within this category.

Thank you for your consideration of Cambridge's comments.

Respectfully submitted,


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Chief Compliance Officer

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