



VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS  
AND INDEPENDENT FINANCIAL ADVISORS

## VIA ELECTRONIC MAIL

July 23, 2014

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

**Re: Release No. 34-72491; File No. SR-FINRA-2014-028**

Dear Ms. Murphy:

On June 13, 2014, FINRA filed a proposed rule change with the SEC that would increase arbitrator honoraria by increasing arbitration filing fees, member surcharges and process fees, and hearing session fees.<sup>1</sup> The proposed changes increase the arbitrator honoraria that arbitrators receive, increase the additional amount that chairpersons receive, and increase certain surcharges and fees incurred by parties engaged in the FINRA Dispute Resolution process.

The Financial Services Institute<sup>2</sup> (FSI) appreciates the opportunity to comment on this important proposal. FSI supports the increases in honoraria and applauds FINRA for proposing these changes.

### Background on FSI Members

The independent broker-dealer (IBD) community has been an important and active part of the lives of American investors for more than 30 years. The IBD business model focuses on comprehensive financial planning services and unbiased investment advice. IBD firms also share a number of other similar business characteristics. They generally clear their securities business on a fully disclosed basis; primarily engage in the sale of packaged products, such as mutual funds and variable insurance products; take a comprehensive approach to their clients' financial goals and objectives; and provide investment advisory services through either affiliated registered investment adviser firms or such firms owned by their registered representatives. Due to their unique business model, IBDs and their affiliated financial advisers are especially well positioned to provide middle-class Americans with the financial advice, products, and services necessary to achieve their financial goals and objectives.

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<sup>1</sup> Notice of Filing of Proposed Rule Change to Amend the Code of Arbitration Procedure for Customer Disputes and the Code of Arbitration Procedure for Industry Disputes To Increase Arbitrator Honoraria and Increase Certain Arbitration Fees, SR-FINRA-2014-026, 79 Fed Reg. 127 (July 2, 2014).

<sup>2</sup> The Financial Services Institute, Voice of Independent Broker-Dealers and Independent Financial Advisors, was formed on January 1, 2004. Our members are broker-dealers, often dually registered as federal investment advisers, and their independent contractor registered representatives. FSI has 100 Broker-Dealer member firms that have more than 138,000 affiliated registered representatives serving more than 14 million American households. FSI also has more than 35,000 Financial Advisor members.

In the U.S., approximately 201,000 independent financial advisers – or approximately 64 percent of all practicing registered representatives – operate in the IBD channel.<sup>3</sup> These financial advisers are self-employed independent contractors, rather than employees of the IBD firms. These financial advisers 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. Clients of independent financial advisers are typically “main street America” – it is, in fact, almost part of the “charter” of the independent channel. The core market of advisers affiliated with IBDs is comprised of clients who have tens and hundreds of thousands as opposed to millions of dollars to invest. Independent financial advisers are entrepreneurial business owners who typically have strong ties, visibility, and individual name recognition within their communities and client base. Most of their new clients come through referrals from existing clients or other centers of influence.<sup>4</sup> Independent financial advisers get to know their clients personally and provide them investment advice in face-to-face meetings. Due to their close ties to the communities in which they operate their small businesses, we believe these financial advisers have a strong incentive to make the achievement of their clients’ investment objectives their primary goal.

FSI is the advocacy organization for IBDs and independent financial advisers. Member firms formed FSI to improve their compliance efforts and promote the IBD business model. FSI is committed to preserving the valuable role that IBDs and independent advisers play in helping Americans plan for and achieve their financial goals. FSI’s primary goal is to ensure our members operate in a regulatory environment that is fair and balanced. FSI’s advocacy efforts on behalf of our members include industry surveys, research, and outreach to legislators, regulators, and policymakers. FSI also provides our members with an appropriate forum to share best practices in an effort to improve their compliance, operations, and marketing efforts.

#### Comments

FSI continues to support FINRA’s efforts to enhance the quality of arbitration panels. By increasing honoraria, FINRA will increase the likelihood of attracting and retaining competent and engaged arbitrators to serve on these panels and achieve fair outcomes for participants. Attracting more arbitrator candidates will also increase the number of arbitrators available for parties to select.

In addition to attracting more and better arbitrators, FINRA should also consider the impact increased arbitrator compensation could have on certain conflicts of interest. For instance, an arbitrator may be reluctant to grant a Motion to Dismiss because it would eliminate the potential compensation they would receive from serving on the panel. In these instances, FINRA may consider paying a set honorarium, which would reduce or eliminate any reluctance on the part of the arbitrator to grant the motion that is motivated by a desire to be adequately compensated for their time.

FSI applauds FINRA’s economic impact analysis with regard to assessing fees and surcharges in order to achieve an efficient balance. The rule filing demonstrates that FINRA investigated several alternative approaches for increasing honoraria and has struck an effective balance. FSI continues to be encouraged by FINRA’s progress in implementing effective cost-benefit analysis in its rulemaking.

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<sup>3</sup> Cerulli Associates at <http://www.cerulli.com/>.

<sup>4</sup> These “centers of influence” may include lawyers, accountants, human resources managers, or other trusted advisers.

Conclusion

We are committed to constructive engagement in the regulatory process and, therefore, welcome the opportunity to work with FINRA and the SEC on this and other important regulatory efforts.

Thank you for your consideration of our 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