MICHIGAN STATE
UNIVERSITY
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April 10, 2015

VIA EMAIL

Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090
rule-comments@sec.gov

RE: SR FINRA-2015-005-Proposed Rule Change to Extend the Expiration Date of the Refund Program Under FINRA Rule 3110.15

Dear Secretary Fields,

On behalf of the Investor Advocacy Clinic at Michigan State University College of Law, I write to support SR-FINRA-2015-005. The clinic is a non-profit focused on investor protection issues. It has a strong interest in supporting measures designed to improve investor access to information and disclosure quality.

I. Background

Recent changes to FINRA Rule 3110 seek to improve disclosure quality. On December 30, 2014, the Commission approved changes to Rule 3110. These alterations were designed to improve disclosures about new applicants and existing personnel. On the front end, FIRNA now requires its members to investigate applicants' backgrounds.[1] FINRA took a different approach with existing personnel. For this category, the change created a temporary refund period. FINRA will refund some fees assessed to members for associated persons making late disclosures so long as they provide updates before July 31, 2015. Assuming the disclosure meets the deadline, the late fee may be refunded if it involves a paid judgment or lien that was: (i) under $5,000.00, or (ii) any dollar amount that was paid off within 30 days after the individual learned about it. The proposed rule change does not alter these requirements. It simply seeks to extend the refund period by four months to December 1, 2015.

[1] Rule 3110 now requires members to implement written procedures reasonably designed to verify the accuracy and completeness of information on an applicant's registration form.

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These measures seek to address a real problem. In particular, many persons associated with FINRA member firms have not disclosed required information. On this point, a Wall Street Journal article revealed that, before this program began, more than 1,600 stockbrokers had failed to disclose certain debts as required by FINRA rules, including bankruptcies, judgments, and liens.[2]

This information should be disclosed. FINRA recognizes that accurate and complete disclosures serve the public's interest because investors review this information when choosing their brokerage firms. Investors use tools like FINRA's BrokerCheck system, which draws its information from the Central Registration Depository (CRD), to research the backgrounds of financial advisors and brokerage firms. Because customers rely on BrokerCheck and CRD reports as a source for information, these disclosures are important for consumer protection and should be complete and accurate. More complete disclosures also aid FINRA as it targets enforcement efforts.

II. Reasons To Support

We support the four-month extension period. This extension grants member firms time to make more disclosures. A four-month extension also strikes a balance between providing adequate time to comply and creating a sense of urgency for firms to update disclosures. The extension not only gives members adequate time to inform its associated persons but also gives the associated persons enough time to pay off smaller debts to qualify for the refunds. Extending the period allows FINRA to encourage compliance and to conserve resources that otherwise would be allocated to enforce disclosure requirements, freeing FINRA's resources to be used elsewhere.

Success may depend on the extent to which FINRA and FINRA member firms promote the temporary refund period. Associated persons and compliance departments must know about the refund period with enough time to act. We strongly encourage FINRA to devote appropriate resources to promoting the refund period.

III. Limited Concerns

While we encourage the Commission to approve the proposed rule, we have minor reservations about the program's current provisions. We are concerned that FINRA may not achieve its goal if it excludes too many late disclosures from the refund period. In particular, the $5000.00 threshold and payoff requirements may not bring as many updates in as more generous terms would. While we understand the desire to show leniency to the more deserving, we worry that some associated persons will resist disclosing debts they have not yet paid. If the extension does not substantially improve disclosure quality, FINRA should consider other changes. Possible changes include increasing the threshold to some figure above $5000.00 or removing the payoff requirement altogether.

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[2] Jean Eaglesham, Rob Barry, *Stockbrokers Fail to Disclose Red Flags,* THE WALL STREET JOURNAL (March 2014).

We generally support FINRA's efforts to improve disclosure quality. FINRA is in the best position to make adjustments and move quickly. If these incentives do not work, FINRA should strongly consider increasing penalties for late disclosures or increasing enforcement efforts on reporting failures.

We thank the Commission for the opportunity to comment.

Respectfully Submitted,

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