

## VIA ELECTRONIC MAIL

May 1, 2017

Brent J. Fields  
Secretary, Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: Proposed Change to Adopt Consolidated FINRA Registration Rules, Restructure the Representative-Level Qualification Examination, and Amend the Continuing Education Requirements; SR-FINRA-2017-007

Dear Secretary Fields:

On April 10, 2017, the Financial Industry Regulatory Authority (FINRA) published its request for public comment on proposed rule changes relating to qualification, registration, and continuing education requirements (Proposed Rule Changes).<sup>1</sup> The Proposed Rule Changes are intended to streamline competency exams by eliminating duplicative testing and facilitate opportunities for professionals seeking to enter or re-enter the securities industry.

The Financial Services Institute<sup>2</sup> (FSI) appreciates the opportunity to comment on this important proposal. FSI believes the Proposed Rule Changes will increase the efficiency of the examination process and reduce the burden on firms by eliminating unnecessary or duplicative exams and registrations, which will benefit both industry participants and investors.

### **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 US, there are approximately 167,000 independent financial advisors, which account for approximately 64.5% percent of all producing registered representatives.<sup>3</sup> These financial advisors are self-employed independent contractors, rather than employees of the Independent Broker-Dealers (IBD).

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<sup>1</sup> *Notice of Filing of a Proposed Change to Adopt Consolidated FINRA Registration Rules, Restructure the Representative-Level Qualification Examination, and Amend the Continuing Education Requirements*, U.S. Securities and Exchange Commission, 82 Fed. Reg. 17336 (April 10, 2017). [hereinafter *Notice of Filing*]

<sup>2</sup> 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.

<sup>3</sup> The use of the term “financial advisor” or “advisor” in this letter is a reference to an individual who is a registered representative of a broker-dealer, an investment adviser representative of a registered investment adviser firm, or a dual registrant. The use of the term “investment adviser” or “adviser” in this letter is a reference to a firm or individual registered with the SEC or state securities division as an investment adviser.

FSI's IBD member firms provide business support to independent financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners with 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. Their services include 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 Main Street Americans with the financial advice, products, and services necessary to achieve their investment goals.

FSI members make substantial contributions to our nation's economy. According to Oxford Economics, FSI members nationwide generate \$48.3 billion of economic activity. This activity, in turn, supports 482,100 jobs including direct employees, those employed in the FSI supply chain, and those supported in the broader economy. In addition, FSI members contribute nearly \$6.8 billion annually to federal, state, and local government taxes. FSI members account for approximately 8.4% of the total financial services industry contribution to U.S. economic activity.<sup>4</sup>

### **Discussion**

FSI appreciates the opportunity to comment on the FINRA Proposed Rule Changes. The Proposed Rule Changes would consolidate qualification and registration requirements, restructure the representative-level qualification examinations, create a general knowledge examination and specialized knowledge examinations, and amend the continuing education requirements. FSI supports the Proposed Rule Changes and commends FINRA for undertaking a review of its existing examination system and proposing practical solutions.

FSI has long been a proponent of modernizing the examination and continuing education requirements and providing more flexibility for qualified individuals to obtain or maintain securities licenses and supports FINRA's efforts in this regard. Expansion of permissive registration is good for the industry, despite the manageable supervision challenges. Further, eliminating several representative-level registration categories and associated examinations that have become outdated or have limited utility will improve the efficiency and effectiveness of the process.

#### **A. Restructuring Examinations**

The Proposed Rule Changes would require all potential representative-level registrants to take a general knowledge examination called the Securities Industry Essentials™ (SIE) and a specialized knowledge examination appropriate to their job function. This approach ensures that everyone entering the industry through FINRA registration starts with the same baseline knowledge. The additional specialization examinations will ensure professionals receive the specialized education and testing they need, benefitting both industry participants and investors.

On May 27, 2015, FINRA released a Concept Release and draft content outline of the various concepts and rules to be tested on the proposed SIE.<sup>5</sup> FINRA described the SIE as a

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<sup>4</sup> Oxford Economics for the Financial Services Institute, *The Economic Impact of FSI's Members* (2016).

<sup>5</sup> FINRA Regulatory Notice 15-20 (May 27, 2015) available at

general examination covering fundamental securities industry knowledge. FSI supports requiring applicants to demonstrate a basic awareness of the securities industry and its regulatory requirements. As FINRA develops the examination, FSI recommends FINRA avoid including specific details of complex rules, such as those governing net capital, margin, hypothecation of customer securities, and order and quotation display. FSI looks forward to providing specific comments to FINRA on the content of the specialized knowledge examinations and the SIE when they are separately filed with the SEC.

The Proposed Rule Changes also remove the requirement that an individual be associated with a firm before taking the SIE allowing greater flexibility and career mobility within the securities industry. While the Proposed Rule Changes are clear that passing the SIE alone would not qualify an individual for registration with FINRA, we remain concerned about the risk of bad actors taking the examination and then holding themselves out as a licensed professional to defraud investors. The proposed SIE Rules of Conduct would require individuals to attest that they are not qualified to engage in the investment banking or securities business based on passing the SIE and that they will not make any misrepresentations to the public as to their qualifications. This is an excellent first step and FINRA's promised communications campaign to ensure that the public is well informed of the SIE and its limitations is another safeguard. However, BrokerCheck would not publicly reflect the status of individuals who have only taken the SIE, because passing the SIE alone does not qualify them for registration with FINRA via the CRD system. We encourage FINRA to consider implementing further controls as a part of the enhancements it is considering to the CRD system and BrokerCheck, to ensure those who pass the SIE do not mislead investors.

FINRA states that it is currently conducting a pricing analysis to determine a reasonable fee for the SIE and the specialized knowledge examinations.<sup>6</sup> We support that effort but encourage FINRA to be mindful that if passing the SIE prior to being hired will become a requirement for employment in the securities industry, 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 particularly important as firms look to recruit the next generation of financial advisors and develop succession plans that ensure their clients continue to have access to professional financial expertise even after their current advisor retires. FSI looks forward to providing specific comments to FINRA on its pricing analysis when it is separately filed with the SEC.

## **B. Registration Requirements**

The Proposed Rule Changes to registration and continuing education requirements will create much needed flexibility for industry participants as well as those seeking to enter the industry. The Proposed Rule Changes would allow a two-year lapse of registration period, but would establish a four-year expiration period for the SIE. FINRA contends that establishing a four-year expiration period for the SIE will reduce the overall cost of registration, such as the SIE examination fee and test preparation costs, for individuals returning to the industry after two years, but less than four years from the date of their last registration. Following this rationale, FSI suggests that FINRA extend the registration requirement to four years rather than two, to align with the length of time the SIE is valid and avoid adding unnecessary complexity to the requirements.

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[http://www.finra.org/sites/default/files/notice\\_doc\\_file\\_ref/Notice\\_Regulatory\\_15-20.pdf](http://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-20.pdf).

<sup>6</sup> Notice of Filing, *supra* note 1, at 17341.

The Proposed Rule Changes would allow individuals in good standing who transfer to a financial services affiliate of a firm to qualify for a waiver allowing their credentials to be reinstated within a seven-year period if they meet certain requirements. In addition, any individual associated with a firm could obtain and maintain any qualification and registration permitted by the firm. This is a significant development with many potential benefits. For one, this approach will allow firms to quickly fill gaps created by personnel leaving or switching roles. Secondly, this will allow personnel to seek out opportunities in other areas and expand their knowledge base. Most importantly, this allows qualified experts the flexibility to change roles, seek other opportunities, and focus on non-work issues such as family, without the pressure of losing the license they worked so hard to obtain. Employees today demand flexibility and work-life balance. By easing the current prohibitions against holding licenses not directly related to their duties, FINRA is allowing firms to provide the flexibility necessary to attract talented professionals. FSI further supports integrating the various existing registration categories into a single rule to streamline supervisory requirements.

### **C. Effective Date**

The Proposed Rule Changes would implement the entire revised structure in March 2018, rather than in two phases. FSI is concerned that this may not be enough time for our members to execute all the supervisory and operational changes that will need to be made. We encourage FINRA to work with its District Committees to ensure that firms have enough time to implement the new examination and licensing requirements, or to provide firms a grace period for compliance.

### **Conclusion**

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 [REDACTED].

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" and a series of loops for the name "Bellaire".

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

cc: Marcia Asquith, Office of the Corporate Secretary, FINRA