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Secretary
Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090
Via email to rule-comments@sec.gov

Re: File Number SR-FINRA-2020-032

Dear Sir or Madam:

PFS Investments, Inc. ("PFSI"), a registered broker-dealer and investment adviser, appreciates the opportunity to comment on FINRA's proposed rule change to increase the revenues it relies upon to fund its regulatory mission, as set forth in the above-noted release ("Release").[1] Although PFSI supports fully funding FINRA's important regulatory mission, we are concerned that FINRA's allocation of its fee increase equally across three components of a firm – the size of the firm, the firm's trading activity, and the number of its registered persons - results in an unjustified fee increase on our branch offices that function as small businesses, and the representatives who join our business from the middle-income market. We respectfully request that greater weight be allocated to a firm's trading activity and less of the burden of the increases be attributable to the number of registered persons. Such a realigned weighting would properly take into account that the "pronounced growth in trading volumes" has driven most of the expansion in FINRA's regulatory responsibilities. As importantly, weighting the increase more heavily towards trading activity would serve to mitigate our substantial concern that FINRA's exam qualification and registration fees have risen to the point of becoming a barrier to entry for many middle-income Americans. As proposed, we fear that high fees will prevent FINRA from achieving its goal of encouraging new, diverse, middle-income individuals from seeking a career in the securities industry.

PFSI is a wholly-owned subsidiary of Primerica, Inc. (NYSE: PRI). As a registered broker-dealer, we primarily serve the middle-income market by offering high quality mutual funds, variable annuities and retirement plans to our clients in all fifty states and Puerto Rico. We have decades of in-depth experience in developing a broadly diverse salesforce. We have over 18,500 independent contractor representatives with Series 6 and 63 registrations, approximately 3,700 of which are also branch office supervisors with a Series 26 principal's registration. Our representatives serve the communities where they live and work, and, in normal times, meet with clients in their homes, face-to-face "across the kitchen table." We educate our customers about

[1] See SEC Release No. 34-90176; File No. SR-FINRA-2020-032. Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Adjust FINRA Fees To Provide Sustainable Funding for FINRA's Regulatory Mission (October 14, 2020), 85 Federal Register No. 203 at pages 66592 to 66607.

the long-term benefits of dollar-cost averaging through systematic investing into a diversified investment portfolio, and the need to save for retirement.

As explained in the Release, FINRA has proposed a fee increase that will generate an additional $225 million in annual revenues once fully implemented in 2024. To obtain this substantial increase in annual revenues, FINRA proposes increases to five regulatory fees that are the most broadly assessed fees that FINRA relies on to fund its regulatory mission.[2] Specifically, FINRA is proposing increases to its Gross Income Assessment ("GIA")[3], Trading Activity Fee ("TAF")[4], Personnel Assessment ("PA")[5], and member registration and qualification examination fees, to be phased in over a three-year period beginning in 2022. According to the Release, when grouped according to the three main components of FINRA's regulatory cost – the size of the firm (GIA), the firm's trading activity (TAF), and the number and role of registered persons with the firm (PA, registration, and qualification examination fees) – each group has contributed roughly the same total revenue to FINRA for the last five years.[6] The request is therefore designed as a proportional fee increase, splitting the total fee increase of $225 million evenly across these three categories -- $75 million from the GIA, $75 million from the TAF, and $75 million collectively from the representative based fees (PA, registration, and qualification examination fees). FINRA believes this proportional approach to the fee increases "maintain[s] consistency with [its'] existing equitable fee distribution."[7] However, the harmful impact of these fee increases on potential middle-income entrants should not be underestimated. These higher fees will have a significant and disparate impact on middle-income markets, which will be especially acute during this difficult economic climate.

According to FINRA, the need for this additional revenue is driven by the significant expansion in its regulatory responsibilities since 2013, the last time it raised these core regulatory fees. Causing its expanded regulatory responsibilities are "the proliferation of new investment products and services, the increase in the number of trading venues and trading volumes", and "the adoption by the SEC of important new rules that FINRA is charged with overseeing."[8] Specifically, FINRA explains that " new financial products, such as digital assets and increasingly intricate exchange-traded products", and "new trading venues, coupled with pronounced growth in trading volumes," require increased examination and surveillance by FINRA staff.[9] This growth in trading venues was also highlighted in a September 2017 speech by Robert W. Cook, FINRA's

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[2] See Release at 66595

[3] The GIA is a core regulatory fee that is designed to correlate to the size of a firm as measured by its gross income. See Release at 66596.

[4] The TAF is a core regulatory fee that is a per share charge against a firm's trading. The TAF is generally assessed on the sale of all exchange-listed securities wherever executed (except debt securities that are not TRACE-Eligible Securities), over-the-counter equity securities, security futures, TRACE-Eligible Securities (provided that the transaction is a Reportable TRACE Transaction), and all municipal securities subject to Municipal Securities Rulemaking Board reporting requirements. See Release at 66597.

[5] The PA is a core regulatory fee which is assessed on the number of registered persons at a firm. See Release at 66597.

[6] Id. at 66595-596.

[7] Id, at 66596

[8] Id. at 66593

[9] Id.

President and CEO, where he explained that "as recently as 2005, one exchange executed approximately 80 percent of the share volume in its listed stocks," but now "[a] stock can be traded on one of twelve exchanges" or "[i]t could be traded off-exchange in the over-the-counter market . . . made up of more than 40 alternative trading systems, which are trading platforms operated by broker-dealers . . ."[10] In addition, he described the market's increasing complexity, and gave an example of "one order placed by an institution . . . for around 9,000 shares" which "required more than 6800 separate steps before it was fully executed."

PFSI firmly supports FINRA's mission, as our securities business depends on fair and efficient markets vigorously defended by a formidable regulatory body. But we believe that the allocation of the fee increase is inequitable, that its impact has not been fully-researched or understood, and that the timing is counterproductive. Our representatives are independent contractors who each are responsible for their own qualification, registration and processing fees. Our branch offices function essentially as small businesses, netting the administrative expenses of running an office against the revenues generated. For example, immediately in 2022, the annual branch office processing fee will more than triple, from $20 to $75, and the PA, which we pass through to all of our representatives, will begin its ascent from the current $130 to $140, then $160 in 2023, and top out at $190 in 2024, for a more than 46% increase in just three years. Our offices depend on attracting new representative talent from the middle-income market and the registration and examination fee increases will make it harder to serve those clients. Currently, a new recruit has to be willing to come out of pocket $390 to get licensed with us, which includes $60 for the SIE exam, $40 for the Series 6 exam, $100 to file Form U4, $15 for fingerprints, and a $45 System Processing Fee. In 2024, under FINRA's proposal, this initial outlay will jump to $485, which will include $80 for the SIE Exam, $75 for the Series 6 Exam, $125 to file Form U4, $20 for fingerprints, and a $70 System Processing Fee. That's over a 24% increase in FINRA fees just to get registered with PFSI but doesn't include any state registration fees or the fee for the Series 63 state law exam, both of which are required by most states before any sale takes place. We are concerned that these fees are quickly becoming a barrier to entry for many of our middle-market participants, including for our minority prospects.

As to timing, we note that many of these fee increases will begin to take effect in 2022, which we expect to be a time when many of our branch offices will still be recovering from the economic downturn caused by the pandemic. Based on our experience encouraging individuals to become securities-licensed, we anticipate the fee increases will have a substantial effect on households still struggling to recover financially. We urge FINRA to study the potential impact of increases on middle-income Americans before imposing them. In its study, we ask that FINRA pay special attention to the fact that it is requesting these fee increases at a time when the total number of registered representatives (at the end of 2019) is at its lowest point in more than fifteen years.[11]

[10] "Equity Market Surveillance Today and the Path Ahead," Robert W. Cook, President and CEO FINRA (September 20, 2017), available at www.finra.org (click on "Media Center" and then "Speeches & Testimony").
[11] See "Registered Representatives Statistical Review 2005-2019" at www.finra.org (Click on "Media Center" and then "Statistics"). (The total number of registered representatives at the end of 2019 was 624,674.)

The harmful effects of the proposed fee increase can be mitigated. By equally dividing the fee increase among the three areas noted above, FINRA has missed the opportunity to better align the fee increase with the activities that are most likely responsible for much of its expanded regulatory responsibilities, which are the pronounced growth in trading volumes and venues. As the Release explains, the TAF generates most of its total revenue from transactions in equity securities. Currently, the TAF for a covered equity security is $0.000119 per share, up to a maximum of $5.95 per trade.[12] Accordingly, on a purchase of 50,000 shares of Tesla at its closing price on November 6th of $429.95, the TAF would generate only a $5.95 fee for FINRA on an investment of $21,497,500. In 2024, once all of the fee increases have gone into effect, the TAF for a covered equity security will be $0.000166 per share, up to a maximum of just $8.30 per trade. That is an increase of only about 40%, even though the trading volumes have essentially doubled from as recently as 2016, when FINRA processed on average 37.4 billion market events every day[13], to 2019's daily average of 71.5 billion.[14] That's a doubling of trading volume supervised by FINRA in only four years. In fact, trading supervision and surveillance has become such a large part of FINRA's responsibilities that it has posted a market events calculator on the front page of its website displaying "the number of market events processed since this page was loaded".[15] If FINRA would have just doubled the planned increase in the TAF, it could have easily raised the additional revenues needed, attained a more equitable distribution of the fee increases, and avoided raising registration, qualification and processing fees on a representative population that hasn't grown in fifteen years. Based on the out-sized growth in trading revenues reported by many market participants even during the pandemic, we doubt they would have noticed.[16]

We greatly appreciate the opportunity to comment on FINRA's fee increases. Please don't hesitate to contact us if you would like to discuss the contents of this comment.

Kindest regards,

John S. Watts
SVP and Chief Counsel
PFS Investments Inc.

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[12] See Release at 66597.

[13] See "Update: FINRA's Cloud Strategy Shone Amid Recent Volatility", Steven J. Randich, Executive Vice President and Chief Information Officer (March 7, 2018) at www.finra.org (click on "Media Center" and then "Blog").

[14] See "Key Statistics for 2019" at www.finra.org (Click on "Media Center" and then "Statistics").

[15] See www.finra.org

[16] "Goldman's Pandemic Hot Streak Continues in Third Quarter," Liz Hoffman, WSJ (October 4, 2020) (Goldman's trading revenue rose 29% from a year ago; trading revenue rose 30% at JP Morgan, 17% at Citigroup, and 4% at Bank of America); "Morgan Stanley Powers Through Coronavirus Recession With Higher Profit, Revenue," Liz Hoffman, WSJ (October 15, 2020) (20% rise in trading revenue for the third quarter).