

MEMO# 29054

June 4, 2015

FINRA Seeks Comment on Rule Requiring Disclosure to Customers Asked to Transfer Their Account to a Representative's New Firm

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TO: BROKER/DEALER ADVISORY COMMITTEE No. 23-15
PRINCIPAL UNDERWRITERS WORKING GROUP RE: FINRA SEEKS COMMENT ON RULE
REQUIRING DISCLOSURE TO CUSTOMERS ASKED TO TRANSFER THEIR ACCOUNT TO A
REPRESENTATIVE'S NEW FIRM

The Financial Industry Regulatory Authority (FINRA) is requesting comment on a proposed new rule, Rule 2272, that would require a FINRA member that hires a registered representative from another firm to provide disclosure to those customers of the representative who are asked to follow the representative to the new firm. FINRA's proposal is briefly summarized below. [\[1\]](#) FINRA has requested comment on the proposal by July 13, 2015. The Institute is not planning to submit a comment letter.

Proposed FINRA Rule 2272 would require a FINRA member that hires a representative from another member firm to provide a FINRA-created educational communication to customers of the representative who are induced to follow the representative to the new employer. [\[2\]](#) The required communication would highlight the potential implications of transferring the customer's assets to the new firm and suggest questions the customer may want to ask to make an informed decision. The questions include issues such as whether:

- financial incentives received by the representative from the new firm will create a conflict of interest;
- the customer has any assets that may not be directly transferrable to the new firm and, if so, whether the customer will incur any costs in either liquidating those assets or leaving them with the customer's current broker-dealer;
- the customer will incur any costs in transferring assets to the new firm and how the new firm's pricing structure and fees compare to the broker-dealer where the account is currently held; and
- there are any differences in product offerings or services between the customer's current firm and the representative's new firm.

The required communication must be provided to the customer either at, or shortly after, the time the customer is first contacted about transferring the account to the new firm. If such contact is in writing, the required disclosure must be provided in writing. If the contact is electronic, the disclosure can be provided through a link in such electronic communication. If the contact is oral, the disclosure must be provided in writing by the earlier of: (1) three days following the conversation; or (2) any written communication sent to the client regarding transferring the account.

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endnotes

[1] See FINRA Request Comment on a Proposed Rule to Require Delivery of an Educational Communication to Customers of a Transferring Representative, FINRA Notice 15-19 (May 2015). The Notice is available at:

http://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory_Notice_15-19.pdf.

[2] The communication that FINRA proposes to be sent to such customers is Attachment B to FINRA's Notice. Attachment A is the proposed text of Rule 2272.

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