

MEMO# 25240

June 1, 2011

ICI Comment Letter on Proposed Amendments to FINRA's Cash Compensation and Revenue Sharing Disclosure Rules

[25240]

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TO: BROKER/DEALER ADVISORY COMMITTEE No. 32-11
CLOSED-END INVESTMENT COMPANY MEMBERS No. 41-11
COMPLIANCE MEMBERS No. 25-11
INTERNAL SALES MANAGERS ROUNDTABLE No. 2-11
SEC RULES MEMBERS No. 62-11
SALES FORCE MARKETING COMMITTEE No. 2-11
SMALL FUNDS MEMBERS No. 36-11 RE: ICI COMMENT LETTER ON PROPOSED AMENDMENTS TO FINRA'S CASH COMPENSATION AND REVENUE SHARING DISCLOSURE RULES

Last month, the SEC published FINRA's proposed final rule amendments to NASD Rule 2830 that would, among other things, require broker-dealers to make new disclosures regarding their receipt of "additional cash compensation," including revenue sharing. [\[1\]](#) ICI filed a comment letter yesterday, which is attached and briefly summarized below.

The letter reiterates our long-standing support for enhanced disclosure to help investors assess and evaluate a broker's recommendations, as well as our view that such disclosure should be required for all retail investment products sold by financial intermediaries, not just funds. The letter generally expresses strong support for many aspects of the proposal, including: the substance of the required disclosure, which pertains to brokers' conflicts of interests; the elimination of related disclosure from a fund's prospectus; the proposed timing of the disclosure; and the ability of FINRA members to make the required disclosure available electronically.

The letter explains, however, that the Dodd-Frank Wall Street Financial Reform Act requires the SEC to conduct two studies on broker disclosure. Also, last year FINRA itself issued a concept proposal on disclosure to retail investors relating to broker services, conflicts, and duties. In light of these initiatives, the letter recommends that the Commission consider

whether the current proposal can be absorbed readily into one or more of these broader initiatives, or whether it may soon be rendered moot, duplicative, or in need of extensive revisions.

Should the SEC decide to move forward with this rulemaking during the pendency of these other related efforts, the letter makes several substantive recommendations on the proposal. Most importantly, we urge that the rule's scope be better defined so that it is appropriately limited to those brokers providing services to retail investors and does not inadvertently extend to principal underwriters. We make two recommendations with respect to the required disclosure: that it be simplified by requiring broker-dealers to use names readily identifiable with the funds sold rather than the names of specific offerors, and that FINRA clarify that it will not be deemed advertising or sales literature under other FINRA rules. Finally, we suggest that firms be given at least one year to comply.

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[Attachment](#)

endnotes

[1] See FINRA Notice of Filing of Proposed Rule Change and Amendment No. 1 to Adopt NASD Rule 2830 as FINRA 2341 (Investment Company Securities) in the Consolidated FINRA Rulebook, 76 Fed. Reg. 26779 (May 9, 2011), available at <http://www.sec.gov/rules/sro/finra/2011/34-64386.pdf>.

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