WEDBUSH

March 4, 2013

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Dear Ms. Asquith,

Wedbush Securities management appreciates the opportunity to comment on the proposed FINRA rule requiring disclosures relating to recruitment compensation practices (Regulatory Notice 13-02).

Wedbush has a documented history of expressing concern about recruitment practices. We continue to support and encourage FINRA to take a leadership role with respect to recruitment practices and strongly recommend that you propose a rule limiting recruiting compensation arrangements to no more than $100,000. Limiting the amount of recruiting compensation will serve to provide a "level" recruiting playing field for all member firms. The lack of enhanced compensation packages would create an opportunity for advisors to evaluate the member firms based on their ability to provide the advisors and their clients with the best culture, service and wealth management solutions. This should cause member firms to commit additional resources to their culture, products and services in an effort to ensure maximum advisor and client retention. In addition, the elimination of exaggerated recruitment compensation practices addresses any concerns of perceived or potential client conflicts of interest and the need to disclose these potential conflicts.

Wedbush understands FINRA's concerns with potential investor conflicts of interest that may exist with current member firms recruiting compensation arrangements. Transparency is a key component of a client's ability to formulate informed decisions. It is invaluable in building and maintaining investor confidence. To the extent FINRA chooses to move forward with the proposed rule requiring disclosure of recruiting compensation, Wedbush supports a general disclosure of recruiting compensation to clients. This disclosure should include a description of the different types of recruiting compensation the advisor will/may receive. We are not supportive of disclosing the specific dollar amounts for each type of recruiting compensation. We fear that disclosing specific personal advisor compensation information could result in unintended consequences.

We are extremely concerned that disclosing specific compensation figures would violate an advisor's right to privacy. Once disclosed, both the firm and the advisor would lose control over how this information could/would be used. This potential invasion of privacy becomes more concerning when we consider that we are not aware of any instance where a client has been harmed as a result of recruitment compensation received by an advisor. Also, without relative frames of reference such as the size of an advisor's book of business or average annual revenues for a predetermined timeframe we believe specific recruiting compensation numbers could/would serve to confuse the clients.

We encourage FINRA to give additional consideration to the purpose of this proposed rule. If one of the purposes is to reduce or eliminate recruiting compensation practices deemed to have a greater potential for conflict of interest we would support a modification to the rule that simply prevents these practices. Specifically, we would support the elimination of bonuses tied to commission/revenue production goals and enhanced/guaranteed payout arrangements. Going forward, this would remove any appearance of impropriety on the part of the advisor when recommending investment solutions to clients after joining the new firm.

With respect to a *de minimis* exception we would support an amount not to exceed $100,000. We feel this amount is more reflective of the costs and reduced income incurred by an advisor when they change member firms. Re-establishing their client base and practice at a new firm can result in a significant reduction in income during the first year of their move.

Operationally, Regulatory Notice 13-02 and the subsequent proposed rule present significant challenges. Requiring affirmation of receipt of the recruiting compensation disclosure from clients will cause delays in the account opening and transfer process. It will create a layer of tracking, review and approval that does not currently exist at member firms. This delay could potentially disadvantage clients. Constructing this new layer to ensure receipt of the affirmation will be costly and create an undue burden. The difficulties in complying with this requirement would set the stage for member firms to fail in meeting their obligation. Therefore, we are not supportive of a requirement for receipt of affirmation of the recruiting compensation disclosure.

Wedbush management believes that a general written disclosure of the different types of recruiting compensation would be the optimal way to satisfy requirements under the proposed rule. The best way to facilitate this written disclosure would be to include it with the letter that advisors send clients announcing their position with the new firm. A copy of the disclosure and the list of clients it was sent to would be retained by the hiring firm as evidence of complying with the disclosure requirement. We believe that a disclosure time frame between six months and one year from date of hire would be more than sufficient to satisfy the requirements of the rule proposal. Our experience reveals that an advisor contacts 100% of the clients he/she would like to join him/her at the new firm within the first six months of employment. We do not believe that disclosure to clients prior to the advisors leaving their firm is appropriate.

In summary, Wedbush supports the concern regarding potential conflicts of interest that may exist with recruiting compensation arrangements. We feel that the best way to address these concerns is to "level" the playing field by not allowing member firms to offer recruitment compensation that exceeds $100,000. We are concerned that a rule requiring disclosures of recruitment compensation will create confusion with clients and not fully address the issue of conflict of interest. Should FINRA move forward with the proposed rule we ask that you do so with caution and an open dialogue with member firms to ensure that the final rule accomplishes its intended purpose.

Wedbush would welcome additional opportunities to provide input and insight to the FINRA rule-making process.

Sincerely,

Wesley R. Long
Executive Vice President
Private Client Services Group
Wedbush Securities, Inc.