

Dear Ms. Asquith,

I've read through Regulatory Notice 11-14 several times trying to get a handle on just what responsibilities an introducing firm like Centennial Securities Company would be required to perform. While I understand...and agree....that firms need to be held responsible for the functions they outsource to a third party service, there are some things that an introducing firm needs to rely on. For example, the proposed due diligence analysis makes it sound like the introducing firm would need to make sure that the clearing firm was taking proper possession and control of their securities, that margin loan positions for our firm were properly hypothecated, or that our fails to deliver or receive were properly recorded in the clearing firm's special reserve calculation. If my clearing firm is a FINRA member I should be able to rely on your audit and oversight procedures for such things but I doubt very much that FINRA or my clearing company will offer the reports necessary to prove it. Most introducing firms don't have the expertise to perform such due diligence....that is why we are outsourcing the functions to a third party service. Most introducing firms I know take responsibility for such things as TRACE reporting, AML and CIP functions, etc even when these items are handled by their clearing firm. The oversight in these cases is much easier because we have a hand in the process. But if that scope of oversight and responsibility begins to edge into what the dividend or margin clerk is doing on the other end I'm afraid an introducing firm is ill prepared to handle such functions.

Thank you for your consideration.

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