

Comment on Proposed Rule To Require Delivery of Educational Communication;
RN 15-19; Recruitment Practices

Submitted by Buckman, Buckman & Reid, Inc.

We have reviewed the Revised Proposal dealing with Recruitment Practices concerning the “Educational Communication” (following up on a similar proposal last March with much more specific information being required therein). Clearly, the “conflict of interest” which was the basis for regulatory concern was the trend toward huge, six-, seven-, and even eight-figure signing bonuses offered to individual representatives and groups of representatives to join firms recruiting them. Virtually all of such brokers and/or advisors and broker/advisor groups were at larger firms, and were being recruited by other large firms. The huge incentive packages involved in these types of incentive payment offers was seen by FINRA as posing a serious conflict of interest between the clients and the investment professionals being paid such huge sums. Proprietary products in existing accounts, again virtually the exclusive domain of large firms, was seen as a possible source of conflict of interest between investors owning assets in firm accounts and their financial professionals seeking a huge payday from another firm at the expense of their investors (who may have to sell out of their current firm’s proprietary products – with attendant large commissions and possible fees and/or losses with respect thereto -- in order to move to the new, large firm).

Buckman, Buckman & Reid, Inc. hereby suggest an exception for smaller firms, who do not (and, in fact, could not) offer such absurdly huge incentive payments to much more average brokers. Indeed, the payments sometimes (but generally not) offered to an entirely different type of broker or advisor really are only intended to offset temporary bumps in revenue associated with the period of movement from one firm to the new firm, and are rarely, if ever, even close to the gargantuan payments offered by the larger firms to brokers or advisors with truly massive books of business. A payment of less than \$50,000 to offset lost revenue in the midst of such a move clearly does not pose any “conflict of interest” to their customers. Similarly, there is almost never a “proprietary product” issue at smaller firms; such products are sponsored exclusively by the large firms and their associated entities.

Buckman, Buckman & Reid, Inc. hereby suggests that an exception be made for firms with the below-listed characteristics, to the proposed “Educational Communication” requirement:

Such requirement would not be imposed on:

- 1) Firms with 150 or fewer representatives;
- 2) Firms with no “proprietary products” in customer accounts; or
- 3) Firms offering \$50,000 or less to representatives as an inducement to change firms.

It seems to management and staff of Buckman, Buckman & Reid, Inc. that if the firms, the representatives, and the offer structure involved in a negotiation meet all of the above-listed criteria, then there is no conflict of interest posed by the move whatsoever. Clearly, FINRA intends for “discussions” to occur between investors and representatives on the theory that some investors will be taken aback by the huge incentive payments involved in large firm recruitment efforts, and may elect not to move with their highly-compensated financial professional being paid in that way. Such considerations are not present in any meaningful way with small firm recruitment efforts, which in no way pose anything close to a conflict of interest with any investors, as set forth in the above-listed aspects of small firm recruitment – entirely different from those of large firms. Small firms should not be penalized for the excesses of large firms, especially when there is virtually no existing risk of a conflict with the interests of investors, as set forth above.

Andrew Heath
Chief Compliance Officer
Buckman, Buckman & Reid, Inc.