Michael J. Mungenast
Chief Executive Officer and President
Post Office Box 518
Birmingham, Alabama 35201-0518
Phone: 205-268-5144
Phone: 1-800-288-3035
FAX: 205-268-1624
mike.mungenast@proequities.com

ProEquities

May 27, 2008

By e-mail (pubcom@finra.org)

Martha E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1500

Re: Notice to Members 08-20; Proposed Changes to Forms U4 and U5

Dear Ms. Asquith:

ProEquities, Inc. ("ProEquities" or "the Firm"), a registered broker/dealer firm, wishes to submit these comments on Notice to Members 08-20 (the "Notice"), which seeks public input on a proposed changes to Forms U4 and U5 (the "Proposed Rule").

I. Proposed Revisions to Question 14I(2) on Form U4 and Question 7E(2) on Form U5 to Require the Reporting of Allegations of Sales Practice Violations Made Against Registered Persons in a Civil Lawsuit or Arbitration in Which the Registered Person Is Not a Named Party—Settled or Litigated Proceedings

ProEquities understands FINRA's concerns about the current disclosure provisions of Question 14I(2) on Form U4 and Question 7E(2) on Form U5 (the "Resolved Dispute Questions"). However, the Firm is unable to support the proposed revisions to the Resolved Dispute Questions. If a registered person is not a party to an arbitration or litigation proceeding, the registered person has no legal right to participate in a settlement or to participate in the defense of the proceeding. However, under the proposed revisions to the Resolved Dispute Questions, a registered person could receive a serious "black mark" on their regulatory record if the registered person's firm settled a proceeding (which it could do without the registered person's input or consent) or has a judgment entered against it (while the registered person has no opportunity to be represented by counsel or to conduct a defense, discovery or cross-examination of witnesses). In the opinion of ProEquities, this result would violate American notions of fundamental fairness.

In ProEquities' experience, the claimant in a civil litigation and arbitration proceeding often alleges that the broker/dealer firm was negligent in its supervision of the registered person with whom the claimant worked most closely. Since (1) the term

"involved" includes "failing to reasonably supervise another in doing an act", and (2) proposed revisions to the Resolved Dispute Questions would require disclosure if "the firm has made a good faith determination after reasonable investigation that the *sales practice violations* alleged *involve* one or more particular registered representatives", it appears that the proposed revisions to the Resolved Dispute Questions would require disclosure with respect to registered principals who supervised the registered person's activities (if there were a claim involving a failure to supervise and the Firm's "reasonable investigation" reveals such involvement), and might be construed to require such a disclosure even if no failure to supervise claim were present. (In other words, if the Firm's investigation revealed that a registered principal approved a disputed transaction, the Proposed Rule could be interpreted to treat that principal as being "involved" because they "fail[ed] to reasonably supervise another in doing an act.") For example, if the claim involved an exchange of a variable annuity that was allegedly unsuitable, there might be "black mark" disclosures with respect to (a) any registered principal who reviewed or approved the transaction, (b) any registered principal who trained the registered person with respect to variable annuity transactions, (c) any registered principal who audited the registered person's office, (d) any registered principal who prepared written supervisory procedures regarding variable annuities, or who was involved in implementation of those procedures (such as review of exception reports), (e) the firm's chief compliance officer, and (f) the firm's chief executive officer. In the Firm's opinion, disclosure of this nature is completely inappropriate and of little or no use or interest to the investing public. If FINRA decides to amend Question 14I(2) as contemplated by the Notice, the Firm strongly suggests that registered persons who are allegedly involved merely as a result of supervisory activities should not be subject to disclosure unless they are actually named as defendants in the matter in question.

ProEquities strongly recommends that if FINRA decides to amend the Resolved Dispute Questions as contemplated by the Notice, it should add an instruction similar to that set forth in note 8 of the Notice; otherwise, it is inevitable that many firms will inadvertently fail to make disclosures as contemplated by the discussion in the Notice.

II. Proposed Revisions to Question 14I(3) on Form U4 and Question 7E(3) on Form U5 to Require the Reporting of Allegations of Sales Practice Violations Made Against Registered Persons in a Civil Lawsuit or Arbitration in Which the Registered Person Is Not a Named Party

ProEquities has significant concerns about the disclosures required by current Question 14I(3) on Form U4 and current Question 7E(3) on Form U5 (the "Unresolved Allegation Questions"). In the Firm's opinion, it is unfair and unwise for a firm to be required to provide a "Yes" response to the Unresolved Allegation Questions, since the Questions refer to mere allegations without any consideration of the merits of the claim. (This is particularly true with respect to written customer complaints, since the claimant has usually not involved an attorney at that point. If the complaint arises in an arbitration claim or civil litigation, it is more likely that an attorney has investigated the claimant's issues and decided that there is at least some likely basis for recovering damages.) As a

result of these long-standing concerns, ProEquities believes that the Unresolved Allegation Questions should be deleted in their entirety; alternatively, the Firm believes the Unresolved Allegation Questions should at least be revised to delete disclosures related only to written customer complaints (as opposed to arbitration claims or civil litigation). If FINRA decides to retain the Unresolved Allegation Questions, the Firm agrees that they should be revised in a manner consistent with the revisions to the Resolved Dispute Questions (and subject to the Firm's comments as noted above).

III. Proposed Revisions to Question 14I(1) on Form U4 and Question 7E on Form U5 to Raise the Dollar Threshold from $10,000 to $15,000

For the reasons set forth in the Notice, ProEquities agrees that the dollar thresholds in Question 14I(1) on Form U4 and Question 7E on Form U5 should be raised from $10,000 to $15,000.

IV. Proposed Revisions to the Initial Form U5 to Allow Firms to Amend the "Reason for Termination" and "Date of Termination"

For the reasons set forth in the Notice, ProEquities endorses the proposal to permit firms to amend the reason for, or date of, the date of a registered person's termination with the firm.

V. Technical, Conforming and Other Changes to Forms U4 and U5

T he Firm has no objection to the proposed revisions set forth in this heading of the Notice.

VI. Conclusion

ProEquities appreciates this opportunity to comment on the Proposed Rule. If you wish to discuss the Proposed Rule, this letter, or any thoughts, comments, questions or suggestions that you may have, please call me at (205) 268-5144.

Very truly yours,

PROEQUITIES, INC.

By: _____
Michael J. Mungenast
President

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Bc: Dave Timmons
Max Berueffy
Al Delchamps
Rob Gannon
Dale Brown

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