

March 20, 2014

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

Re:

Request for Comment – Limited Corporate Financing Brokers

Regulatory Notice 14-09

Dear Ms. Asquith:

Signal Hill Capital Group LLC ("Signal Hill") appreciates the opportunity to submit this comment letter on the proposed rule set for firms that meet the definition of limited corporate financing broker ("LCFB"). Signal Hill employs approximately 70 persons in six locations throughout the United States. Our practice is limited to rendering investment banking advisory services only, and, as such, we anticipate we would meet the definition of an LCFB.

Signal Hill commends FINRA for its efforts to adapt its rules to more closely align with firms such as ours. Historically, it has been our experience that FINRA staff and examiners have struggled to apply to us, and others like us, rules and standards designed for firms engaging in retail brokerage business, with unsatisfactory and sometime frustrating results. Regardless of the ultimate outcome of the proposed LCFB rule set, we encourage FINRA to continue its efforts in this regard.

With respect to the newly proposed rule set, it is our view that however commendable the intent, it falls short of offering any meaningful improvement over the status quo. The most substantive proposed change appears to be elimination of the Regulatory Element continuing education requirement for registered personnel. While we support that change, it could – and in our opinion, should – be adopted independent of the creation of new LCFB category, simply by modification of the current rules such that the mere holding of a Series 79 registration would not trigger a need to participate in Regulatory Element continuing education absent some other obligation to do so¹.

The proposed new rule set does virtually nothing to meaningfully address what we believe is the main complaint about the current environment, which is the extraordinary cost

¹ We encourage FINRA to use this opportunity to review its entire approach to the Regulatory Element process. Under the current procedures, employees are required to travel to an offsite location, where they are asked to remove jewelry and turn their pockets inside-out for inspection. Many employees, whose only contact with FINRA is in connection with the bi-annual Regulatory Element process, report finding it to be unduly intrusive and demeaning. FINRA should demand a more nuanced approach from its vendors and should explore ways to deliver continuing education directly to users.

associated with maintaining a standard broker-dealer registration. In particular, an LCFB presumably would continue to be required to undergo an annual independent broker –dealer audit by a PCAOB registered public accounting firm, as well bi-annual AML independent testing. Since, by definition, an LCFB could be neither a broker nor a dealer, nor permitted to hold or even handle customer funds or securities, continuing to subject those firms to those requirements (and costs) makes no sense and offers no protections to anyone. That said, we understand relief from those requirements may be beyond FINRA's jurisdiction.

Likewise, despite having no customer accounts and holding no customer funds or securities, it appears that the proposed rules offer no relief from the current requirement that LCFB firms continue to be members of SIPC. SIPC assessments, which are based on revenues regardless of how generated, are onerous and constitute an unwarranted tax on LCFB firms whose clients are not eligible for SIPC protection in any event.

In response to some of the particular questions raised by FINRA at the end of Notice 14-09, it is our view that:

- most firms that qualify for LCFB status would ultimately choose not to, given the scant incentives for doing so and the strictures such a classification would impose
- the proposed new rules offer little economic benefit to LCFBs over the status quo
- principals and representatives who hold registration categories not included with LCFB
 Rule 123 should be permitted to continue to retain those registrations. Termination of
 those registrations offers no benefit to FINRA and would constitute a disincentive to
 firms that might be considering making the switch, particularly given that pursuant to
 proposed Rule 240, FINRA specifically reserves the right to subsequently require that a
 firm revert to existing broker-dealer standards
- the SEC no-action letter recently issued to Faith Colish *et al* significantly impacts the analysis (and desirability) of whether a firm would elect to pursue becoming an LCFB. Many, perhaps most, firms that would meet the eligibility standards for LCFB also satisfy the parameters of the no-action letter. There are no obvious reasons why a firm that did so would nevertheless elect to voluntarily continue to assume the costs and responsibilities associated with being an LCFB when it could relieve itself entirely of those by reliance on the no-action letter. Likewise, pending legislation in the US House of Representatives and Senate may further undermine the appeal of LCFB status.

Thank you for considering these comments. Please contact the undersigned if you have any questions or if we may be of any assistance.

Robert E. Patterson General Counsel

Very truly yours,