



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

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Ms Asquith,

I am writing to provide feedback on FINRA Regulatory Notice 16-29 regarding Gifts, Gratuities, and Non-Cash Compensation Rules. I believe my perspective may be valuable to your decision making process and would appreciate the opportunity to share, despite having missed the commentary deadline.

I am a tenured investment Wholesaler for a significant global asset manager. It is my job to relay the intellectual capital of my firm to Financial Advisors within my assigned geography, with a primary goal of delivering optimal portfolio outcomes for retail investors, and a secondary goal of raising capital for my firm. Wholesalers like myself provide an immeasurable amount of protection to investors, and also see the daily happenings of the financial services industry from a unique perspective. It is through this lens that I have observed practices that I deem both inappropriate and undeniably punitive to investors. For this reason, the specifics of which I will describe below, I applaud FINRA's efforts and implore you to follow-through with Rules 3020-3222.

Each year, "offeror" firms allocate hundreds of millions of dollars so that their wholesalers can supply financial advisors with concert tickets, private suites at hockey games, and dinners at pretentious steakhouses; we throw outrageous parties at the Phoenix Open, host DJ-ed tailgates, fishing tournaments, and the list goes on. Investors would be mortified to know that their financial advisor seeks investment updates only when bribed with filet mignon, or that no update is given while dining.

Additionally, member firms require “offeror” firms to pay large sums of money in order to secure shelf space for their product offerings. While it may be reasonable for “offeror” firms to help support the technological and logistical costs associated with maintaining a product platform, the reality is that the majority of these funds are dedicated to providing additional luxuries for financial advisors. By and large, this occurs via production based incentive trips. In 2016 alone, I know financial advisors that traveled to the Bahamas, Hawaii, California, Las Vegas, and other luxury destinations, free of charge. Furthermore, because FINRA requires sponsors to have representation at these events, “offeror” firms will use attendance at these broker dealer incentive trips as a reward for their top producing wholesalers, whose professional responsibilities for the week will include hosting poolside cabanas, surfing lessons, swimming with dolphins, etc. for the financial advisors and their families. Again, this is all free of charge to financial advisors, wholesalers, and their families.

In addition to using broker dealer top producer trips as rewards for wholesalers, “offeror” firms hold their own incentive trips. I have wholesaling friends that have been sent to Mexico, Portugal, Aruba, etc. or allowed to use their firm’s corporate jet in exchange for their level of annual production. I even know wholesalers that have walked the red carpet at awards shows, courtesy of their firm or a sub advisor on their products.

Finally, there are “educational” due diligence conferences, which, in all reality, aren’t educationally focused at all. Here, “offeror” firms will host a 1-2 day meeting at a five-star hotel in order for the financial advisors to hear directly from portfolio managers. The invitees are typically prospects with whom the “offeror” wishes to curry favor, or existing clients whom the “offeror” wishes to reward, and the meetings usually start or end on a Monday or Friday so that the financial advisor can conveniently extend the trip for the weekend at the cost of the “offeror.” Many financial advisors skip the educational sessions so as to enjoy their vacation, but even those who attend the sessions haven’t traveled cross-country with a primary focus on education. Point in case: Never in my career have I heard of an undersubscribed due diligence meeting, yet when the exact same portfolio manager delivers the identical content via conference call or Webex, few financial advisors find the information important enough that they bother to dial-in. I’d place a substantial wager on the fact that these “educational” events would cease to exist if registered representatives were responsible for paying the cost of their own attendance.

Separate from the various reward trip issues, the current system allows misconduct on a daily basis. Extra names are being added to expense reports to make \$500 tickets appear as though they were only \$50; wholesalers will split the cost of events so that the fraction they each report to their firm falls within allowable limits; wholesalers bring their friends and family to corporate entertainment events (or just take their family out to dinner) and then add financial advisor names to the expense report to conceal the personal expenses; wholesalers give event tickets to financial advisors without attending; financial advisors threaten to withhold their business unless a wholesaler

agrees to financially support their client entertainment event which is disguised as "educational"; wholesalers sponsor financial advisor events without attending nor participating; logos are added to expensive items so as to make them allowable; wholesalers and financial advisors vacation in the same locale in order to corporately fund their family vacations. I could elaborate for hours with specific examples of the ethical issues I witness on a daily basis, but we don't need additional examples to see that both firms and registered representatives are taking profound advantage of the system. Bottom-line:

- INVESTMENT PRODUCTS ARE BEING SOLD TO INVESTORS BASED-UPON TICKETS, TRIPS, AND FANCY MEALS. THIS REPRESENTS A SYSTEMIC BREACH OF FIDUCIARY DUTY.
- THE COST OF THESE LUXURIES IS BEING SHOULDERED-BY INVESTORS VIA THE FEES THEY PAY TO THEIR FINANCIAL ADVISOR, THE EXPENSE RATIOS OF THE INVESTMENT PRODUCTS THEY OWN, AND THROUGH SACRIFICED SHAREHOLDER VALUE.
- FIRMS ARE EXPLOITING THESE REGULATORY ALLOWANCES IN ORDER TO CONCEAL EGREGIOUS AMOUNTS OF SUPPLEMENTAL TAX-FREE INCOME THEY GIVE TO THEIR TOP PRODUCERS AND PROSPECTS. THIS IS ALSO A MEANS OF CIRCUMVENTING THE COMPENSATION LIMITS DEFINED IN PROSPECTUSES AND SHOWN ON QUARTERLY STATEMENTS.

It's a very sad truth that my opinion on Gift, Entertainment, and Non-Cash issues is non-consensus, but it is based-upon my belief that we can do more for investors. I don't buy business, I don't use my corporate budget for personal gain, I don't give gifts to clients, and I trust my firm to compensate me appropriately and honestly. I would like to see the industry shift back toward investment decisions that are based-upon legitimate in-office business conversations and a more investor-centric culture. All of that said, please move forward with 3020-3022 and aggressively expand and enforce the definition and application of non-cash compensation rules. In doing so, please consider the following suggestions:

- Please disallow reward and incentive trips of all kinds. This would prioritize client outcomes over production levels.
- Please limit member firms to hosting educational conferences only for their own Registered Representatives, or require attendees to pay their way. This would remove a conflict of interest without sacrificing meetings with true educational components.

- Please disallow Financial Advisors from soliciting any financial support from Wholesalers. This would remove an enormous conflict of interest, streamline the compliance process, and could be easily funded at the discretion of the Advisor's broker dealer with the monies that were previously devoted to rewards trips. Better yet, let Financial Advisors invest in their own businesses and pay for the marketing efforts that they deem most important.
- Limit the expenses for which member and "offeror" firms can reimburse their Registered Representatives. A wholesaler should be reimbursed for personal travel, personal meals, meals with clients during the day, and evening events at which a portfolio manager or other speaker is present. These expenses should only occur within the wholesaler's defined territory. Again, this limits conflicts of interest, simplifies the monitoring of expense reporting, enhances the legitimacy of all meetings, and reduces costs for firms.
- Know that the gifts limit will only matter if you eliminate the off-record compensation and are able to enforce it. As is, the limit may as well be \$100K.

In conclusion, if FINRA's goal is to protect investors and shareholders, the current rules and enforcement are falling-short, and I am grateful to you for addressing this issue. The proposed rules could single-handedly reduce fees, compliance burden, and liability while protecting jobs, shareholder value, and the reputation of the financial services industry. I appreciate your consideration and hope you'll capitalize on this opportunity.

Respectfully,

A Concerned Wholesaler