DEMPSEY LORD SMITH, LLC
MEMBER FINRA/SIPC

July 1, 2019

Via email: pubcom@finra.org

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA Inc
1735 K Street, NW
Washington, DC 200006-1506

Re: Regulatory Notice 19-17
Proposed FINRA Rule 4111

Dear Ms. Mitchell:

Dempsey Lord Smith, LLC would like to respectfully submit comments on the new proposed FINRA Rule 4111. Our firm's principals fully support FINRA's efforts to protect the investing public from unethical and fraudulent activities of a minor subset of industry participants, but we are concerned about the effectiveness of this new proposed rule to prevent such activities. The firm would like to point out that by definition, harmful acts to clients such as fraud and/or unethical sales practices are only realized and/or discovered after the occurrence, and the use of big data to try to be predictive of an event that has not occurred is certainly not an exact science, and does nothing to prevent these acts. We are also extremely concerned about the use of highly questionable data quality with respect to customer complaints as one of the criteria to classify firms. Our firm's direct experience with FINRA arbitration is certainly less than an encouraging endorsement of merit of some customer complaints, and with the number of frivolous claims filed one would have to wonder how these would be counted against a firm or representative. It is also very important to note that a customer complaint does not mean that a representative has necessarily done anything fraudulent or unethical. Our firm and our advisors are in the "securities investment" business, and all investments contain risks, and it is a fact some investments do not perform as expected by the advisor and/or firm, but this in no way is indicative of harmful intent of the advisor and/or firm. The use of raw data that contains claim information of this nature to predict restricted firm status with no due process is un-American, and highly questionable.

Our firm's principals also believe this new proposed rule would have a disproportionate effect on smaller FINRA member firms, and immediate unintended consequences with respect to registered representatives with any kind of regulatory background. Advisors with any prior

regulatory incidents regardless of harmful intent, would be in danger of being given notice to terminate just to reduce the firm's overall "risk rating". It is also important to note that many of these advisors would not be able to find a new broker/dealer for this very reason. Small member firms designated as a "restricted firm" would have a permanent death sentence as their advisors with clean records would leave not wanting to be associated with the restricted firm, and then no way to recruit new representatives. Surely, FINRA would not consider this a desired outcome as the small broker/dealers of this country do serve a large portion of the smaller clients which are allocated to call centers at the larger member firms.

The proposed additional capital reserve requirements would also disproportionately affect smaller firm as well in our opinion, and are not feasible for most small firms. The current financial environment for broker/dealers is extremely capital intensive with all of the regulatory and compliance pressures, and margins are already razor thin for smaller firms. The additional capital required to make any kind of real difference in unpaid arbitration claims would put extreme pressure on most small firms.

In short, we applaud the intent of the new rule to protect investors, but we have serous concerns about the methodology, the reliance on potentially poor data quality, and the potentially unnecessary reputational damage using predictive assumptions about events that have not occurred. We are requesting that this rule not be adopted in its current format.

Sincerely,

Jerry Dempsey, Jr
CEO, Dempsey Lord Smith, LLC