

October 1, 2009

Mr. David M. Becker
General Counsel and Senior Policy Director
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Mr. Becker:

In April 2009, the FINRA Board of Governors established a special committee to conduct an internal review of FINRA's examination program as it relates to the detection of fraud and Ponzi schemes, including one operated by Bernard Madoff and one allegedly perpetrated by R. Allen Stanford. The Special Review Committee, chaired by former U.S. Comptroller General Charles A. Bowsher and assisted by outside counsel, has recently concluded its review and presented its findings to the FINRA Board. Enclosed is a copy of the findings and recommendations.

Protecting investors from fraud and manipulation is FINRA's most important mission. It requires us to stay current on new securities products and industry trends; to ensure that information flows quickly across our organization and among other regulators; and, to constantly self-evaluate and improve our regulatory and examination programs. As the enclosed report points out, there are a number of areas where we must, quite simply, do a better job.

The Madoff and Stanford scandals have significantly harmed many investors. These schemes have painfully demonstrated how the gaps in our current fragmented regulatory system can allow significant activity and misconduct to occur. The committee's review is one of a number of significant initiatives undertaken by FINRA to better understand and correct shortcomings within its regulatory mandate and to identify potential areas where investor protection regulation can be enhanced.

As the findings have concluded, a number of key points are apparent. First, FINRA must institute a number of internal reforms to better safeguard investors and the broader financial system. Second, the report calls attention to the many regulatory challenges related to jurisdictional issues and product definitions. Finally, the review points to the urgent need for financial regulatory reform that insures comprehensive oversight, reduces jurisdictional confusion, streamlines enforcement and improves coordination and communication among all regulators.

In the wake of the Madoff fraud and before the special committee convened, FINRA had already taken a number of steps to strengthen our regulatory programs. We have enhanced our routine examination programs and procedures for better detecting fraud. We have conducted training

programs for examiners aimed at fraud detection. We have also instituted new procedures surrounding review of employer/employee arbitration matters. In March 2009, we established FINRA's Office of the Whistleblower, a dedicated team to handle high-risk tips. And this week, we will announce our plans to develop an Office of Fraud Detection and Market Intelligence to heighten and centralize our review of serious fraud allegations and better consolidate regulatory information.

In the coming weeks, we will develop a plan of action based on the Special Review Committee's recommendations to present to our Board at its December 2009 meeting. We will explain our plans for implementing changes, including: enhancing fraud-detection measures across all aspects of our examination program; improving our technology systems to better support cross-organizational information sharing to support examinations; working with the SEC and other regulators to increase data sharing related to FINRA-regulated firms; and, continuing to seek expanded jurisdiction that would close the regulatory gaps between broker-dealers and investment adviser firms. As you will see in the report, many of these steps will require consultation and concurrence with the Commission. We will work closely with the agency as we implement changes outlined in our plan.

We are grateful for the time and energy the committee has dedicated to independently help us identify areas where we can enhance our regulatory programs. Comprised entirely of FINRA public governors, the committee included Ellyn L. Brown, Brown & Associates; Harvey J. Goldschmid, Dwight Professor of Law at Columbia University; Joel Seligman, President of the University of Rochester; and, committee chair, Charles A. Bowsher.

The special committee's report provides an important roadmap for FINRA to become a more efficient regulator. We have a long history of effective regulation, and we will take the lessons from this report to work with SEC staff to make FINRA even stronger. I am fully committed to making changes to strengthen our programs and raise the level of protection for all investors.

Sincerely,



Richard G. Ketchum
Chairman and CEO

cc: James Brigagliano, Co-Acting Director, Division of Trading and Markets
Daniel Gallagher, Co-Acting Director, Division of Trading and Markets
John Walsh, Acting Director, Office of Compliance Inspections and Examinations