



July 11, 2025

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20006

Re: Comments on Regulatory Notice 25-07 – Compensation Arrangements and PSE Payments

Dear Ms. Mitchell:

Finalis Securities LLC appreciates the opportunity to comment on FINRA Regulatory Notice 25-07, which appropriately recognizes the need to modernize regulatory requirements to reflect evolving business practices and technologies, while maintaining investor protection as the core priority.

We write specifically to address section F of the Notice—“Compensation Arrangements: Payment of Compensation to Personal Services Entities (PSEs)”—and to strongly support the development of a regulatory framework that would explicitly permit FINRA member firms to pay transaction-based compensation directly to registered representatives’ Personal Services Entities, subject to appropriate safeguards.

We believe such a change would modernize and rationalize FINRA’s rules, aligning them with contemporary business models while maintaining investor protection and market integrity.

1. The Case for Permitting Payments to Personal Services Entities

Registered representatives increasingly work as independent contractors within decentralized and technology-enabled broker-dealer models. Many operate under trade names reflecting their personal brands or boutique advisory practices, which are often organized through legal entities (“DBAs”) that reflect their personal brands or boutique advisory practices.



Under current interpretations, member firms generally cannot pay transaction-based compensation to these DBAs if they are structured as corporate entities—even if wholly owned and controlled by the registered representative—because of concerns about paying “unregistered persons.”

This creates the following operational and compliance challenges:

- Administrative Inefficiency: Firms must pay individuals directly, even though the representative may operate through a DBA entity for all other business purposes.
- Tax Disadvantages: Representatives cannot access legitimate tax-planning opportunities available to other professionals operating through entities.
- Competitive Disadvantage: Registered representatives in the broker-dealer space face restrictions not imposed on other financial professionals, such as RIAs.
- Risk of Inadvertent Noncompliance: Without a clear framework, firms and registered representatives risk unknowingly violating compensation rules, which creates unnecessary enforcement exposure and compliance uncertainty.

These constraints are inconsistent with the modern, flexible workplace that FINRA itself seeks to promote through this rule modernization initiative and its remote initiatives. Finalis is also aware that some registered representatives in the industry have used Personal Services Entities to receive transaction-based compensation without obtaining clear or formal regulatory approval. Finalis has deliberately chosen not to adopt that approach, as we believe it is not permitted under existing regulatory interpretations. This has placed Finalis at a competitive disadvantage relative to firms willing to take a more aggressive stance, underscoring the need for a level, consistent, and clearly articulated regulatory playing field.

2. SEC Guidance Supports Such Structures with Proper Controls

We recognize that the SEC has historically expressed caution about paying transaction-based compensation to entities due to broker-dealer registration requirements. However, the SEC has also clarified (in no-action letters and staff guidance) that the receipt of transaction-based compensation by a wholly owned pass-through entity—absent solicitation or securities-related activities—does not automatically confer broker status if appropriate controls exist.

Key principles from SEC staff guidance include:

- The PSE does not engage in any securities activity other than serving as a conduit for compensation.
- The broker-dealer retains exclusive direction and supervisory control over the associated person’s securities activities.
- The broker-dealer maintains the right to determine the frequency and amount of compensation.



These principles are consistent with positions outlined in SEC staff no-action letters, such as R.G. Dickinson & Co. (SEC No-Action Letter, Dec. 16, 1981) and Merrill Lynch, Pierce, Fenner & Smith Inc. (SEC No-Action Letter, June 21, 1976). In these letters, the SEC staff did not object to broker-dealers paying transaction-based compensation through rep-owned conduit entities under controlled conditions—specifically where the broker-dealer retained full supervisory control, the associated person remained properly registered, and the entity engaged in no separate securities activities.

3. Proposed Safeguards and Supervisory Controls

We support FINRA's clear interest in ensuring that any new rule or guidance that permits PSE payments preserves effective supervision and does not enable payments to unregistered persons.

We recommend that any such framework include the following minimum safeguards, which member firms could adopt into their Written Supervisory Procedures:

- Exclusive Control: The broker-dealer retains sole authority to determine the amount and timing of all compensation.
- Ownership/Control Verification: The PSE is wholly owned and controlled by the registered representative.
- Activity Restrictions: The PSE engages in no securities activity other than receiving compensation from the broker-dealer and distributing it to the registered representative.
- Contractual Requirements: Written agreements specify these restrictions and require compliance.
- Disclosure and Attestation: Annual attestations by the registered representative that the PSE remains in compliance with these requirements.
- Surveillance and Audits: Periodic reviews of the PSE's bank statements (with appropriate consent) to confirm compliance (to minimize additional burden, such reviews could be integrated into existing annual compliance or branch audit cycle).
- Inspections: Inclusion of PSE arrangements in the firm's remote or onsite branch inspection program.
- Communications Review: Surveillance of electronic communications to detect evidence of improper delegation or unregistered securities activity.

We recognize that any permitted payment framework must not serve as a means to shield unregistered activity or diminish supervisory accountability. The proposed safeguards—including ownership verification, exclusive broker-dealer control over compensation, and contractual limitations—are specifically designed to eliminate those risks.

4. Investor Protections and Broader Industry Benefits

A rule permitting PSE payments, with these safeguards, would:

- Reduce Operational Burden: Allow firms to pay entities in a manner similar to other professional relationships.



- Enhance Fairness: Align broker-dealer compensation practices with those available to other professionals.
- Promote Compliance: Reduce confusion and mitigate inadvertent rule violations through clear, uniform standards.
- Support Modern Business Models: Facilitate the shift toward independent contractor and hybrid workplace models that FINRA seeks to accommodate.

5. Suggested Next Steps for FINRA

We encourage FINRA to:

- Initiate rulemaking to expressly permit transaction-based compensation payments to PSEs under defined conditions.
- Collaborate with member firms to develop model supervisory procedures and audit standards.
- Coordinate with the SEC to ensure consistency across regulatory regimes.

Such reforms would further FINRA's mission to promote innovation in financial services delivery, ensure fair treatment of registered persons, and streamline compliance for modern business models—without compromising investor protection.

We would also support a phased approach to implementation, such as a limited pilot program or conditional approval framework, to allow FINRA to evaluate effectiveness and gather data before broader adoption.

Conclusion

Finalis Securities LLC is committed to the highest standards of investor protection and market integrity. We believe that modernizing FINRA's rules to explicitly permit payments to Personal Services Entities—subject to robust safeguards—would be a balanced, practical, and overdue reform that enhances regulatory clarity and fairness.

We appreciate your consideration of our comments and would welcome the opportunity to discuss these recommendations further.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Brad Ziemba', with a horizontal line extending to the right.

Brad Ziemba

Chief Compliance Officer

Finalis Securities LLC



A handwritten signature in black ink that reads 'Dennis Azary'.

Dennis Azary

Deputy Chief Compliance Officer

Finalis Securities LLC