www.integrated.solutions
561-453-3800

May 13, 2025

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA

Via email: pubcom@finra.org

We appreciate the opportunity to comment regarding a Proposal to Reduce Unnecessary Burdens and Simplify Requirements Regarding Associated Persons' Outside Activities as discussed in Regulatory Notice 25-05.

Our firm, Integrated Solutions, is a leading service provider within the financial industry, with a client base of approximately one hundred small to medium sized broker-dealers that are involved in a myriad of business lines. We are privileged to be able to offer guidance to our clients in a practical manner, which helps them navigate the multitude of rules to which they are subjected. For those of us who have survived decades upon decades of supposed improvement to the securities industry and supposed increased investor protection, it appears for the most part that the regulators have complicated matters, increasing frustration among industry professionals and in doing so, having set forth rules and regulations that even the brightest of professionals and investors cannot grasp, nor wish to.

This letter represents our own personal views and does not necessarily represent the views of any of our clients. The authors of this letter have spent many decades affiliating with the broker-dealers that constitute the membership of various exchanges or the only registered national securities association that currently is FINRA.

One of the most frequently asked questions when we conduct Annual Compliance Meetings is about the nuances of what constitutes outside business and what constitutes a private securities transaction and the relationship, if any, between the two rules.

We appreciate that FINRA has recognized the ridiculousness of requiring Registered Persons to disclose their outside business activities when they are not at all related to the securities industry. What difference did it make if someone owned a catering business on the side or worked as a florist or as a limousine driver? What impact would it have on investor protection? The fact that this was ever an issue for a securities regulator was far-fetched. The time and effort spent in requesting disclosure from registered persons, updating U4 forms to reflect these activities and in approving and filing the forms was a distraction for each member's personnel from more relevant supervisory obligations. Not everything that a registered person does or engages in should necessarily have the details of those activities subject to oversight by regulators or the member with which he or she is associated. Narrowing the scope of regulation or supervision of registered persons will not only allow already overtaxed compliance personnel to focus on more important and real issues that may affect an investor or FINRA member but also prove that we live in an independent world where "Big Brother" is not overstepping his watchfulness.

Each FINRA member is unique

In its attempt to homogenize the basic concept of eliminating conflicts of interest that can arise in the broker-dealer community, the current rules and the proposed rules ignore the fact that the membership does not need standardized rule that specifically indicate exactly what each member should comply with.

Rather, it behooves each member to recognize the ethical considerations that should apply to each of their associated person's individual behavior. Proscribing what each member should do is not a wise idea since each member is unique and has different needs and considerations than all of the other members. For example, an Associated Person of a member who effectuates transactions in registered securities on behalf of the member or its retail customers is so different than a member that might effectuate only private placement transactions with typical institutional customers. Instead of ramming irrelevant one-size-fits-all rules or restrictions unto all of its members, FINRA should propose principle-based rules that require its members to consider possible conflicts of interest in their dealings.

The Securities and Exchange Commission was wise enough to do exactly that when it adopted Regulation BI, which dictates that each registered broker-dealer must bear a retail customer's best interest in mind. FINRA should adopt rule changes to follow the SEC's cues in that regard. Each member should be able to adopt procedures that are suitable for it based upon its business, its customer base, its counterparts, etc.

Defining exact inclusions and exclusions is not necessarily useful and may be counterproductive

For example, some Associated Persons engage in securities transactions on behalf of an investment company or fund and have a fiduciary obligation to execute transactions that are in the best interest of the fund. They may also be obligated to maintain confidentiality regarding the transactions or the investment positions or strategies of an investment company or fund. Indeed, transactions might not be executed through FINRA members with which a person is associated especially if more favorable prices are available elsewhere.

Having a rule that treats such situations differently where an investment advisor person's employer is affiliated with that person's FINRA member strains credulity. It penalizes or restricts activities on behalf of a company or fund that wishes to invest as best it can. Mandating supervision of specific transactions that are executed away from a particular member is often impossible and it is most likely not necessary either.

Distinguishing securities transactions and suggesting that they need to be supervised yet commodities transactions need not be supervised is a great example of why definitional precision makes little sense. Specifying that certain real estate related transactions are excluded while other real estate transactions are not excluded are troublesome at best.

Similarly, as proposed, the purchase of the stock of a cooperative corporation in which a dwelling unit is then leased to the stockholder might not be excluded from the definition of personal investments since it involves owning a security. Similarly, the ownership of a condominium in a commercial building where

an Associated Person has his or her office might also be restricted somehow since it is not necessarily specified as being excluded.

Of course, the proposed rule does not define a child as elegantly as it can since it did not consider a child of an Associated Person and his or her domestic partner, which is not an acceptably defined status in every jurisdiction. It does not define residency in terms of whether it is permanent or temporary. We can go on and on but we don't wish to bore anyone reading this letter.

The language of the rules by being too specific creates havoc. Instead, requiring that Associated Persons abide by ethical principles as decided by each member is more effective and less complex.

We admit that the much-curtailed scope of the rule with the additional definition of the more relevant investment-related activity is more realistic and understandable. The inclusion of personal securities transactions in this definition is well received, as it was always a source of confusion to registered persons, their supervisors and to regulators as well. As indicated in your Regulatory Notice, a difficulty existed in the categorization of certain activities, i.e., outside business activity vs. outside securities transactions. Perhaps the proposed rule should also simplify in layman's terms (similar to that which was required when creating Form CRS) what is a private securities transaction, such as, if it's this, it would be that. This would eliminate the difficulty in making the assessment for both the Associated Person and the FINRA member. Another recommendation that we would make is for there to be a *de minimis* exception for the reporting of a private securities transaction, similar to the *de minimis* exemption for IPOs. Perhaps, if the amount of the transaction is less than (x) % of the total securities transaction (which oftentimes it is), then it need not be disclosed or evaluated. Another recommendation that we would make extends to when a Broker-Dealer receives options or warrants on a security as part of the fee structure in a Private Placement of Securities. Obviously, it is a form of compensation for the Broker-Dealer and need not be disclosed when it is received and later distributed to Associated Persons but then needs to be disclosed upon the securities are sold.

We recognize the conflict in whether FINRA member firms might be responsible for supervising and recordkeeping outside Investment Advisor activity, including activity performed at an unaffiliated investment Advisor. We do believe that the FINRA Broker-Dealer is at a disadvantage to supervise the activity from afar and the Investment Advisor is in a far superior position to know the details of their activity in real time and therefore are better suited to supervise the activity. The responsibility to supervise an Investment Adviser-related activity is just another obligation that would be placed on the Broker-Dealer, which is cumbersome and leaves much room for error. Is an Investment Advisor required to supervise the investment activity of the Broker-Dealer? Why not just require the disclosure of the activity in the form of agreement between the Investment Advisor and the Broker-Dealer, which stipulates that the Investment Advisor will supervise the activity of the Registered Person and notify the Broker-Dealer of any activity that may be cause for concern? Investment Advisers being recognized as a "financial institution" for Anti-Money Laundering purposes beginning in January 2026 and subject to most of the regulatory requirements is indicative of the fact that they can and should be called upon to "Know Your Registered Person" as well as "Know Your Customer." We also concur with other Broker-Dealers and Investment Advisors who contend that the dichotomy of the relationships is more confusing to the investor, i.e., "who does what for me, and who is responsible for my accounts and what is the relationship between the two and who really bears the responsibility for my investments."

We applaud the exclusion of certain activity for outside securities transactions including those activities on behalf of a Broker/Dealer and its affiliates, including Investment Advisor activity, insurance and banking. These institutions have their own supervisory structures in place. We found that it was always very confusing for FINRA firms who have affiliates that are under common control to understand their obligations under the current rule. We do not believe that there is any more investor risk in excluding these activities from the purview of the Broker-Dealer than from the institutions from which the activity arises. We also agree that codifying the delineation of responsibilities between members who employ a dually (or more) Registered Person for oversight of the transactions will also simplify the matter and provide a more tangible manner in which transactions can be supervised.

The concept of a "principles-based approach" to both outside business activities and outside securities transactions is one which we truly support. Who would be in a better position to judge the merits of the proposed activity or transaction than each member's supervisors who can readily make such determination? It is so ironic that broker-dealers are required to make risk-determinations regarding their clients or investors relating to possible money-laundering, but yet cannot use those same skill sets to make a risk-determination regarding their Associated Persons?

We laud simplicity and the tearing down of unnecessary and burdensome regulations which only tend to burden the already overburdened and are not productive or fruitful in the protection of investors or the marketplace. Let there be self-assessment in the process as well as the enactment of a simplified and more comprehensible version of the rule and you will see that members and Associated Persons will evidence a greater ease in understanding, resulting in better compliance with the rule.

Please feel free to contact us at hspindel@integrated.solutions or 561-420-0842 or pchait@integrated.solutions or 212-897-1698.

Very truly yours,

Howard Spindel

Peggy E. Chait