Gentlemen:

I comment on the additional disclosures being considered. For the most part these disclosures, while well intentioned and perhaps occasioned by specific instances, would serve only to add to the paper process and further burden the small B/D as well as the District in processing these agreements. Further, these disclosures do not distinguish between insiders, or close relatives of insiders. A loan to a B/D inherently involves a high degree of risk. Coupled with the recent Rule change (July 15, 2002), a required statement to that effect, perhaps in large, bold lettering should suffice. Loans from insiders need not be subject to further disclosures.

Specifically,

1. A clear, succinct "risk statement" should be required. One is offered below.

2. "Intent" should be disclosed only in specific instances, such as the proffered arbitration example, a specific net capital issue, and one that exceeds some threshold i.e. 35% of existing capital.

3. The "sophisticated customer" net worth language is an invitation to litigation. Further, close relatives may have a non investment driven reason for committing the funds and they may not qualify as "sophisticated investors".

4. The exclusion is appropriate, but a "big boy" exclusion should be considered.

5. A signed acknowledgement is necessary.

6. This information is unnecessary and should be contained in the financials. Requiring a copy of the current Focus report(s) would be appropriate.

In sum, a clear concise statement that a loan to a B/D should be considered to be of high risk, that repayment would be subordinate to other claims, and that only an investor who has a specific reason and/or can withstand the complete loss of his investment should consider providing a subordinated loan could be required.

Very truly yours,

Scott Lynn Fagin
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