



**Northwestern Mutual  
Investment Services, LLC**

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June 13, 2008

**Via E-Mail**

Marcia E. Asquith  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

RE: Regulatory Notice 08-24 –Proposed Consolidated FINRA Rules Governing  
Supervision and Supervisory Controls

Dear Ms. Asquith:

Northwestern Mutual Investment Services, LLC (“NMIS”)<sup>1</sup> appreciates the opportunity to comment on the above referenced FINRA notice concerning proposed consolidated FINRA rules governing supervision and supervisory controls. NMIS fully supports FINRA’s efforts to develop a consolidated rulebook that harmonizes and streamlines existing rules. NMIS is particularly supportive of a principles-based rules approach to allow for flexibility to accommodate different business models and sizes of firms. We respectfully suggest, however, that several of the provisions be reconsidered and modified to conform with a principles-based rules approach.

**I. Proposed FINRA Rule 3110(b)(3) Supervision of Outside Securities Activities**

In proposed Rule 3110(b), FINRA sets forth an exception to the supervision requirements for securities-related activities of dual broker-dealer/bank employees. A member firm need not have a supervisory system for bank employees, provided that the member firm has received written assurances from the bank, that, among other things, it has policies and procedures reasonably designed to achieve compliance with the anti-fraud provisions of the federal securities laws.

NMIS encourages FINRA to extend the scope of the proposed exception to cover those employees of the member firm that are independent contractors of or dually employed by *any* financial services affiliate when such employees’ business activities either do not require registration as a broker-dealer or are covered by any of the statutory or regulatory

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<sup>1</sup> NMIS is a registered broker-dealer and wholly owned subsidiary of The Northwestern Mutual Life Insurance Company.

exemptions from registration as a broker-dealer. NMIS supports FINRA's position that member firms must receive written assurances that the affiliate is properly overseeing business activities performed by persons associated with one or more securities entities. When such assurances are in place, it is unnecessary and duplicative to require member firms to supervise such activities.

NMIS also recommends that FINRA incorporate NASD Notice to Members 94-44 and 96-33 into the proposed rule to ensure consistency for proposed FINRA Rule 3110(b)(3).

## **II. Proposed FINRA Rule 3120 Supervisory Control System**

Proposed Rule 3120 would replace current NASD Rule 3012 regarding testing and verification requirements. In addition, proposed Rule 3120 would obligate member firms reporting \$150 million or more in gross revenue on their FOCUS reports to include certain content requirements within the annual report to senior management.

Proposed FINRA Rule 3120(b)(1) would require that the report include a tabulation of reports pertaining to customer complaints and internal investigations made to FINRA during the preceding year.

NMIS believes that this requirement is duplicative of proposed FINRA Rules 3110(b)(5) and 4513 and existing NASD Rule 3070, which require member firms to report statistical and summary information regarding customer complaints and internal investigations to FINRA. Further, the proscriptive nature of the proposal is contrary to a principles-based rules approach. We believe that existing and proposed reporting requirements are sufficient for FINRA's purposes and that additional requirements for a member firm's annual senior management report is unnecessarily burdensome.

Proposed FINRA Rule 3120(b)(2) would require that the report include specific content redundant of current Interpretive Material requirements<sup>2</sup>. The Interpretive Material mandates one or more meetings between the firm's CEO and CCO to discuss matters pertaining to certification, the member firm's compliance efforts, identification and resolution of significant compliance problems, and plans for emerging business areas. Significantly, proposed Rule 3120(b)(2) requires the reporting of information about business areas that operate independently of the Compliance Department and the CCO. The prescriptive nature of the description of content to be included in the annual report is not in keeping with a principals-based approach to compliance. We respectfully recommend that the proposed rule be revised to clarify the scope which excludes businesses or groups in which the Compliance Department does not play a significant

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<sup>2</sup> NASD IM-3013

Marcia E. Asquith  
FINRA  
Page Three

role or remove the business-side content section from the annual senior management report.

### III. **Supplementary Material .08**

NMIS respectfully requests that all proposed language contained within the Supplementary Material be included within FINRA Rules. With respect to transaction review and investigation, we respectfully ask FINRA to consider changing the proposed language from “member’s associated persons and their family members” to “accounts owned by a registered person either directly or through beneficial ownership, interest or control, including immediate family members”. The reference to “family members” in the proposed Supplementary Information is ambiguous and inconsistent with existing NASD Rules<sup>3</sup>. This suggested change would clarify that member firms are obligated to review beneficial interest accounts of registered persons, including those accounts of their immediate family members.

We appreciate your consideration of our comments. Please let us know if we can provide any further assistance. If you have any questions, please contact me at 414.665.1924.

Very truly yours,



Jeffrey B. Williams  
Vice President and Chief Compliance Officer

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<sup>3</sup> NASD Rule 3050