

7/3/08

Regulation Notice 08-24 was posted on May 14, 2008 and the comment period expired on June 13, 2008. Unfortunately, our firm was in the middle of a very comprehensive FINRA audit and this notice took a low priority as volumes of records were extracted and coordinated to satisfy the examiners.

According to Marc Menchel whose comments were cited in two news articles linked below, FINRA believes firm principals need to supervise the insurance business in which their firms engage. In the other article Menchel states, that under the proposal, brokerage firm principals would be required "to supervise each type of business in which the firm engages, regardless of whether registration as a broker-dealer is required for that activity," according to the Finra regulatory notice.

"We think a broker-dealer should supervise all of its business," said Marc Menchel, executive vice president and general counsel of Finra. "If it puts equity index annuities into its business mix, it ought to be supervised."

Finra's just and equitable principles of trade, its standard for brokerage firm dealings with customers, is "not just confined to securities," Mr. Menchel said. "We're just expressing what we think is implicit in the just and equitable principles of trade."

<http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20080602/REG/138327697/1009/TOC&ht=>

<http://www.investmentnews.com/apps/pbcs.dll/section?q=Brokers%2Cadvisers+blast+Finra+proposal&symbol=&targetURL=http%3A%2F%2Fwww.investmentnews.com%2Fapps%2Fpbcs.dll%2Fsection%3Fcategory%3Dstocklookup&category=ADVANCEDSEARCH&searchType=archive&x=11&y=11>

The questions I would like to pose if this rule goes into effect:

If a registered representative receives principal approval for a non-securities related outside business activity, is FINRA stating that the firm is "engaged" in that activity?

Is FINRA going to require a b/d owned by an insurance company be responsible for the suitability and supervise the sales activity of all the non-securities life insurance products sold by a registered representative, even though the products are not offered through the b/d?

Was Minchel stating that the b/d is responsible for the approved activities of a registered representative that discloses he buys and sells antiques on the week-end or owns a cattle ranch?

In comparing the 3110 proposal, Regulatory Notice 08-24 and Minchel's remarks we find incongruencies and believe Minchel's remarks to be far reaching and all too encompassing. While we believe our representatives should be ethical in all of their business dealings we also believe that traditional insurance products sold through our parent insurance company should not be a liability to the b/d. How does the "just and equitable principles of trade" concerning the securities industry have any thing to do with non-securities products or dealings?

I would appreciate an answer, as these are not just rhetorical questions, these are real issues for MWA Financial Services, Inc.

Respectfully submitted,
Pam Fritz