

August 15, 2010

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

Dear Sirs,

In response to your request, the following are my comments on the proposals included in FINRA Regulatory Notice 10-33:

1. The proposed "additional financial or operational schedules or reports" appear to be unduly burdensome. FINRA already has the authority to request any and all information about broker-dealer financial and operational matters whenever it deems such information to be useful. In fact, FINRA does make regular inquiry of broker-dealers whenever any deviation from the norm appears on a filed Focus report. The 10-33 proposal moves the additional burden of such additional reporting from an exception basis to an ongoing routine basis.
2. To the extent that any additional financial or operational information IS needed on a ongoing basis, such information should be gathered by FINRA via a modification of the existing FOCUS reporting system rather than the imposition of additional and duplicative schedules or reports. In order to avoid expanding the existing FOCUS Statement of Income from the currently mandated 27 line items on 1 page to the proposed 124 line items on 4 pages, toggle switches could offer multiple subcategory selections on Statement of Income entries to the FOCUS IIA report, similar to the toggles currently offered on items 4550 through 4695 on the existing FOCUS IIA report.
3. Existing broker-dealer reporting systems often do not supply information by product or other categories as requested in the proposed Statement of Income. For example, principal trading gains are often captured from trading accounts "by trader" rather than "by product" in order to capture the total trading revenue produced by each trader (to in turn compute the commission payout to each trader). Any single trader may trade multiple categories of securities in a single account, including equities, US Govts, Municipals, and Corporate Debt. In order to capture such income data by product would require a trading account for each product category for each trader, which in turn would exponentially expand the burden to capture and report such data by product category.
4. Broker-dealers who transact business on a fully-disclosed basis with a clearing broker are usually at the mercy of the clearing reports supplied by the clearing broker. Often such reports do not break down income by category, or do so in such an obtuse manner that sorting out the data is unduly burdensome.
5. Many of the expense categories in the proposed Statement of Income are not mutually exclusive. Without clear definition, reporting by broker-dealers will be inconsistent and therefore useless or misleading. In the broader view, FINRA should be required to specifically

articulate to the SEC and to its member firms how its understanding of a broker-dealer's categorization of expenses is at all necessary or appropriate for the protection of investors or in the public interest.

6. The most egregious expansion of categories in the proposed Statement of Income is the expansion of "provision for income taxes" into four categories: federal current, federal deferred, other (state) current, and other (state) deferred. Virtually no broker-dealer or other business prepares the complex, time-consuming analysis of deferred taxes more often than annually. Further, few if any regulatory examiners appear to understand the sources or implications of deferred taxes. While deferred tax assets and liabilities have impact on the computation of net capital at fiscal year end, the breakdown of deferred provision vs current provision on the income statement has no regulatory significance.

7. Any requirement for expansion of reporting categories should be accompanied by a clear statement by FINRA that such extended categorization is required only for amounts which are material to the financial statements of the broker-dealer. After all, SEC Rule 17a-5 states that broker-dealer financial statements are to be prepared in accordance with generally accepted accounting principles, and such principles do include a materiality principle which is often ignored by regulatory examiners.

8. Imposing Operational Page reporting on offerings "to extent revenue...exceeds 10% of Total Revenue" creates an unfair bias against and burden upon smaller firms, who would likely be required to provide such information on substantially ALL offerings, whereas larger firms would RARELY be required to report ANY such operational information. If such information is of significance to and required by FINRA, it should be applied to all offerings in excess of a fixed (and material) dollar offering amount, rather than offerings "in excess of 10% of Total Revenue".

9. Any Operational Page reporting should be disassociated with Financial reporting for any broker-dealer filing Focus Part IIA (not filing Focus Part II). The broker-dealer personnel who are knowledgeable about the data reportable on the proposed Operational Page are usually not the same personnel who capture and report Financial information. The reporting of Operational data should have its own format, frequency, and deadline schedule separate and apart from the format, frequency, and deadline schedule for FOCUS Part IIA financial data.

10. It appears clear that FINRA is morphing the broker-dealer financial reporting system away from its original purpose of "demonstrating compliance with financial responsibility rules" into a new purpose of "providing FINRA an ongoing understanding of each firm's business operations". It appears that FINRA seeks the "benefit of additional information" without reasonably considering the cost to member firms of providing such additional information. The suggestion of requiring additional (and duplicative) financial reports instead of modifying the existing FOCUS reporting system suggests a disturbing FINRA insensitivity and disconnect with the concept of cost-benefit analysis. The proposals for Operational Page reporting are clearly and unfairly burdensome to smaller broker-dealers (Comment #7 above). In aggregate, the proposals of Regulatory Notice 10-33 are unduly burdensome to all broker-dealers.

Respectfully submitted,

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