

## **FINRA: Comments on Regulatory Notice 10-54**

FINRA's proposal to require a written statement of services, costs and conflicts to clients before doing business is a sound one, which has the potential to improve financial literacy and provide greater transparency. One goal of financial regulatory reform should be better-informed investors who understand who they are working with, what they getting, what they are paying for what they are getting, and the conflict of interest potential.

### **Proposal for increased financial literacy and meaningful disclosure**

While supporting the movement toward the fiduciary standard for those who give advice, I propose a solution that could:

- Build on FINRA's proposal and support efforts by the SEC
- Provide improved financial literacy for investors
- Provide greater transparency
- Allow a variety of business models to sustain their profitability

Clients vary greatly in what they are looking for in a financial professional and in their ability to understand financial services offerings. A properly educated investor can make informed choices:

- About what type of financial professional to use
- About what types of products and services to use

Both greater financial literacy and transparency can be achieved through a vehicle that has already proven its effectiveness over the years for another federal agency.

### **Financial Label**

In November, 2009, Capital Analysts created a white paper and Financial Label which has subsequently been shared with the Committee for the Fiduciary Standard and others. Based on the educational and transparency value of the FDA's food label, the Financial Label would help investors understand:

- **Who** they are working with (What type of professional?)
- **What** they are getting (Product? Advice? Under what circumstances?)
- **How** they are paying for what they are getting (Commission? Fee?)
- **How much** they are paying and when they are paying it (Complete transparency)
- **Conflict of interest** potential (Is product marked up? Is it proprietary product? Does the professional's firm make a market in the product?)

The label complements what FINRA is trying to achieve in that its categories include:

- **Standard of conduct** – commercial/suitability or fiduciary standard
- **Scope of products** and/or services offered
- **Fees and expenses** paid by the investor
- **Potential conflict** of interest
- **Product restrictions** (limitations)

This label would be in plain English and accompanied by definition of terms. It could be automated so that the investment professional could easily complete it "at or prior to commencing a business relationship with a retail customer." It could be phased in as FINRA deems appropriate.

Attached is a brief white paper explaining the concept of a financial label followed by an introduction to how a financial label template could be used, possible options for template categories, and some sample templates. Financial professionals of all types could use this label with clients.

FINRA's proposal, properly executed, could provide a disclosure that is truly meaningful, that clients will read, understand and benefit from. I hope you will seriously consider the financial label concept as a way to improve the financial outcome for clients as you consider a pre-engagement disclosure. I would welcome the opportunity to discuss this with you further.

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