Summit Equities, Inc.
Registered Investment Adviser

February 20, 2013

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

RE: Response to Regulatory Notice 13-02 Compensation Practices

Dear Ms. Asquith

The firm is pleased to respond to FINRA's solicitation on comments for proposed rule to require disclosure of potential conflicts of interest in regards to recruitment compensation practices as outlined in Regulatory Notice 13-02. We appreciate the Authority's concern regarding potential conflicts of interests to customers and risks to the investing public and we have outlined our areas of concern regarding this proposed rule herein.

In general, we find the notice to have vague areas in regards to defining what is enhanced compensation by stating "similar arrangements" It is not clear if the Authority has a position on registered representatives ("Advisors") who may receive a higher payout schedule as deemed an enhanced compensation package which do not involve upfront bonuses , loans, or target production. Additionally, we disagree with a flat $50,000+ offering floor prompting a disclosure requirement and have included a modified approach, and disagree with the one year timeframe as the review period for transferred business.

We have outlined our response to each bullet noted in the request for comments:

- Require written disclosure at first individualized contact in all instances, rather than allowing oral disclosure at this point.
  **The firm disagrees with this provision as it is not practical from a business standpoint, jeopardizes the move by the Advisor, delays the transfer, and is a segmented approach. We suggest the client receives the required disclosure document at the time they are required to submit an ACAT or broker dealer change form. Providing the disclosure at the time of the transfer paperwork, gives the client an opportunity for comprehensive review of their**

- Apply to all customers recruited by the transferring registered person during the year after the transfer.
  **The firm finds this is vague language. It is not clear if the Authority's position is on new or former clients. If in fact an Advisor prospects a client that coincidently is custodied at his/her previous firm and the client agrees to move their assets to the Advisor, we believe this to be a new client as it was not part of the Advisor's previous book of business and therefore should be excluded from the rule.**

- Apply to any new broker-dealer account assigned to the registered person with the recruiting member opened by a former customer of the registered person in addition to accounts transferring from the previous firm
  **The firm disagrees with the one year provision and recommends 90-180 days as in general industry practices ACATS and transfers occur within this timeframe.**

- Require the registered person to disclose the details of any enhanced compensation to be received in connection with a transfer of securities employment (or association) to a recruiting member to any customer individually contacted by the registered person regarding such transfer *while the registered person is still at the previous firm*.
  **The firm reiterates it position in bullet 1. The firm disagrees with this provision as it is not practical from a business standpoint, jeopardizes the move by the Advisor, delays the transfer, and is a segmented approach. We suggest the client receives the required disclosure document at the time they are required to submit an ACAT or broker dealer change form. Providing the disclosure at the time of the transfer paperwork, gives the client an opportunity for comprehensive review of their accounts in conjunction with the disclosure document to determine if they want to remain with the existing firm or go with the Advisor to the recruiting firm.**

- Include a requirement that a customer affirm receipt of the disclosure at or before account opening at the new firm.
  **The firm reiterates it position in bullet 1. The firm finds that clients can in fact return signature receipt of the disclosure document with the signed ACAT or broker dealer change form at the same time. The firm disagrees with this provision of disclosure prior to the transfer as it is not practical from a business standpoint, jeopardizes the move by the Advisor, delays the transfer, and is a segmented approach. We suggest the client receives the required disclosure document at the time they are required to submit an ACAT or broker dealer change form. Providing the disclosure at the time of the transfer paperwork, gives the client an opportunity for comprehensive review of their accounts in conjunction with the disclosure document to determine if they want to remain with the existing firm or go with the Advisor to the recruiting firm.**

- Apply to a time period different from the proposed one year following the date the registered person associates with the recruiting member
  **The proposed time frame of one year is onerous and causes undue administrative burden on the new firm and the advisor. A time frame of 90 – 180 days should be sufficient. All customers are contacted to transfer their accounts within the first 90 days of the advisor leaving his former company.**

- Establish an amount different from the proposed one year following the date the registered person associates with the recruiting member
  **The firm disagrees with the statutory requirement of $50,000+ and instead suggests a computation employed industry wide. The disclosure requirement prompts when the offer exceeds = 1 X previous 12 month calendar commissions.**

  **The firm also asks the Authority to clarify and define in the rule compensation packages as it relates to transition compensation for those Advisors in this business who are dually insurance and securities representatives. Advisors who also sell insurance (whole life, term life, universal life) may lose income on renewal income related to their insurance clients because the Advisor was not vested at the time of leaving the old firm and going to the new recruiting firm. Comprehensive asset management firms that sell brokerage products, insurance and planning services are affected by this rule. These firms may include additional transition/recruitment compensation for the prospective Advisors loss of insurance renewals due to vesting restrictions. Therefore, the firm recommends this requirement can be satisfied by including in the Advisors offer letter the percentage or dollar amount of recruitment/transition compensation associated with insurance versus securities business. This exception should be clearly represented in the rule.**

- Apply an alternative approach that would require a general upfront disclosure by the recruiting member or registered person that the registered person is receiving, or will receive material enhanced compensation in connection with the transfer of securities employment (or association) to the recruiting member and that additional specific information regarding the details of such compensation is available at a specified location on its website or upon request.
  **The firm strongly opposes posting details offers made to Advisors on its website as this disclosure would then be made available to the entire public not just those customers affected. The firm reiterates its position in bullet 1. The firm disagrees with this provision as it is not practical from a business standpoint, jeopardizes the move by the Advisor, delays the transfer, and is a segmented approach. We suggest the client receives the required disclosure document at the time they are required to submit an ACAT or broker dealer change form. Providing the disclosure at the time of the transfer paperwork, gives the client an opportunity for comprehensive review of their accounts in conjunction with the disclosure document to determine if they want to remain with the existing firm or go with the Advisor to the recruiting firm.**

**In regards to comments on the economic impact and expected beneficial results:**

- What are the direct costs for the recruiting member?
  **The direct costs to the recruiting member firm will include the additional administrative costs to oversee the enforcement of the rule and the additional paperwork necessary to inform the client of the financial arrangement with the new member.**

- What are the indirect costs for the recruiting member?
  **The $50,000+ statutory requirement limits competition and recruitment of agents (i.e. opportunity costs)**

- What benefits would result for individual investors and their agents?
  **For firms that do not offer increased commission targets for recruitment of advisors, the firm finds no benefit to customers and the investing public.**

- Are the costs imposed by the rule warranted by the potential harm to customers arising from the payment by member firms of recruitment compensation to incentivize representatives to change firms without disclosure of such incentives to transferring customers?
  **The firm reiterates its position in the aforementioned bullet and therefore suggests the authority include an exemption to the rule for those firms that do not include commission targets as part of employment offers.**

- How will the rule change business practices and competition among firms with respect to recruiting and compensation practices? Will these impacts differentially affect small or specialized broker-dealers?
  **Smaller firms are more likely to feel the impact of the rule due to staff and resources constraints.**

- **What second order impacts could result?**
  Stifling of competition

SEC Chairman Shapiro specifically stated in an open letter to broker/dealer CEO's that "some types of enhanced compensation practices may lead to registered reps to believe that they must sell securities at a sufficiently high level to justify special arrangements that they may have been given". The firm requests the SEC to provide specific examples of the "types of practices" being referenced. The example given includes recommending unsuitable investment products and churning client accounts which are currently covered by FINRA rules. Specifically, FINRA Rule 2111 Suitability, NASD Conduct Rule 2830, Notice to Members 91-39 Use of Negative Response Letters in Switching Customers, Notice to Members 94-16 Mutual Fund Sales Practice Obligations, and NASD Conduct Rule 3010 Supervision were all designed to address and monitor the results of potential conflicts of interests which would include switching, churning, proper disclosure, and supervision of these activities. The rule also contains areas

which are very vague in nature. The firm believes that institution of this rule is a reiteration of the aforementioned existing rules and therefore duplicates existing regulations.

We would separately like to bring to the Authority's attention in that specific sales targets of proprietary products that are not available to independent advisors should be covered in the rule since they are controlled by an individual firm and not available to the public unless they are a client of that firm.

The firm appreciates the opportunity to response to the Authority's proposal.

Regards,

Juanita D. Hanley, EMBA

Compliance Manager

Richard Millus

Director Recruitment, Sales & Marketing